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IN THE

Supreme Court of the United States

OCTOBER TERM, 1993

ADVANCED MICRO DEVICES, INC.,

Petitioner,

v.

INTEL CORPORATION,

Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

PETITION FOR A WRIT OF CERTIORARI

CARL R. SCHENKER, JR.
Counsel of Record
THOMAS M. MCCOY
DALE M. CENDALI
O'MELVENY & MYERS
555 13th Street, N.W.
Suite 500 West
Washington, D.C. 20004
(202) 383-5300

ROBERT B. MORRILL
JUSTIN T. BECK
SKJERVEN, MORRILL, MACPHERSON, FRANKLIN & FRIEL
25 Metro Drive, Suite 700
San Jose, California 95110
(408) 283-1222

Attorneys for Petitioner

PRESS OF BYRON S. ADAMS, WASHINGTON, D.C. 1-800-347-8208

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QUESTIONS PRESENTED

In the copyright action below, the United States Court of Appeals for the Ninth Circuit asserted appellate jurisdiction and overturned a stay entered by the district court under the guidance of *Colorado River Conserv. Dist. v. United States*, 424 U.S. 800 (1976). The stay was entered to await the outcome of respondent's state court appeal of a California Superior Court decision which had confirmed an arbitration award giving petitioner a defense of license against respondent's copyright claims. Upon overturning the stay, the Ninth Circuit further ordered the district court forthwith to review the validity of the arbitration award even though that question is now pending before the Supreme Court of California. Therefore, the questions presented are:

(1) Whether, as other Circuits have held in conflict with the decision below, a United States Court of Appeals lacks jurisdiction to review a district court's stay order when that order contemplates further federal proceedings after a particular issue is resolved in state courts?

(2) Whether, as other Circuits have held in conflict with the decision below, a district court may enter a "wise judicial administration" stay pending state court proceedings that will resolve some but not all of the issues before the district court?

(3) Whether the duplicative arbitration review ordered by the Ninth Circuit is contrary to the Federal Arbitration Act and fundamental principles of comity?

RULE 29.1 STATEMENT

Advanced Micro Devices, Inc., has no parent companies or nonwholly owned subsidiaries to list pursuant to Supreme Court Rule 29.1.

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PETITION FOR A WRIT OF CERTIORARI

Defendant below, Advanced Micro Devices, Inc. ("AMD"), respectfully petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Ninth Circuit ("Ninth Circuit") in favor of plaintiff below, Intel Corporation ("Intel").

OPINIONS BELOW

The Ninth Circuit opinion (Reinhardt, J.) is reported at 12 F.3d 908 and reprinted in the attached Appendix at App. 1a.[1] The order of the United States District Court for the Northern District of California is unreported and reprinted at App. 13a. Also reproduced in the Appendix are the relevant decisions of the Superior Court of California (App. 25a) and the Sixth District Court of Appeal of California (App. 43a) relating to the review of the arbitration award in California's state courts.

JURISDICTION

The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1). The Ninth Circuit entered its judgment on December 28, 1993 and denied AMD's timely motion for rehearing on February 15, 1994.[2]

STATUTES INVOLVED

The relevant statutes, 9 U.S.C. §§ 3, 10, 11 and 12, and 28 U.S.C. §§ 1254, 1291, 1338 and 1738, are reprinted in the Appendix.

STATEMENT OF THE CASE

This case raises important questions concerning the circumstances in which a district court may enter, and a

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[1] Page citations to materials in the Appendix appear as "App. 00a."

[2] On February 23, 1994, the Ninth Circuit denied AMD's Motion for Stay of Mandate Pending Petition to the Supreme Court for Writ of Certiorari. (App. 57a.) On March 11, 1994, Justice O'Connor, in her capacity as Circuit Justice, denied AMD's Application to Recall and Stay the Mandate Pending Petition for Writ of Certiorari. (App. 59a.)

court of appeals may review, a stay for purposes of "wise judicial administration" under the guidance of this Court's decision in *Colorado River Conserv. Dist. v. United States*, 424 U.S. 800 (1976). The stay in question was entered to allow state court review of an arbitration award relevant to the federal copyright action filed by Intel below.

A. The Arbitration Conducted Under The Intel/AMD Technology Exchange Contract.

In 1982, AMD and Intel entered into a "technology exchange contract," under which each party would have the opportunity to acquire rights to manufacture semiconductor products (including microprocessors or "chips") developed by the other. The contract provided that disputes thereunder would be resolved through arbitration under California law.

On April 10, 1987, AMD filed a demand for arbitration in the Superior Court of California concerning disputes arising under the technology exchange contract. AMD initiated the arbitration primarily because it believed Intel was refusing to transfer new products in violation of the contract, including the latest versions of Intel's highly profitable line of "x86" microprocessors, which had become the industry standard. The California Superior Court issued an order of reference designating 22 claims by AMD and Intel for arbitration. The arbitration, divided into several "modules," proved wide-ranging and extraordinarily complex. The hearing spanned five years and included more than 350 hearing days, 120 pleadings, 47,000 pages of transcripts, and 2,500 exhibits.

In October 1990, the arbitrator (retired Superior Court Judge J. Barton Phelps) found that Intel had breached the general covenant of good faith and fair dealing implied in all contracts and had breached a specific implied covenant to act reasonably to promote the purposes of the contract and the parties' mutual aims. After considering the appropriate remedy for Intel's breach, Judge Phelps ruled in March 1991 that the transfer to AMD of the "manufacturing package" necessary to produce Intel's "386" chip

might be an appropriate remedy, depending on the extent of AMD's damages.

By this time, however, AMD had developed its own version of the "386" chip, which incorporated Intel copyrighted material, without the benefit of a transferred manufacturing package. Accordingly, in August 1991, AMD informed Judge Phelps that it no longer needed a transfer of the "386" manufacturing package, but that to protect AMD from further legal challenges by Intel, AMD should be awarded the *license rights* that would ordinarily accompany the manufacturing package.

After learning that AMD had produced its own "386" chip, and aware of the possibility that Judge Phelps would grant a "386" license to AMD, Intel initiated this separate lawsuit in federal court alleging copyright infringement against AMD. Intel initially filed its copyright action in the United States District Court for the Western District of Texas, Austin Division, on October 9, 1991, asserting federal jurisdiction under the Copyright Act, 17 U.S.C. § 101 *et seq.*, and under 28 U.S.C. § 1338(a) (federal jurisdiction over copyright claims).

On February 24, 1992, several months after Intel filed this federal action, Judge Phelps issued his final Award of Arbitrator, containing AMD's remedies for Intel's breaches. (App. 38a.) The award fashioned an equitable remedy awarding AMD non-exclusive licenses under any and all Intel copyrights, patents, trade secrets, and mask-works, if any, incorporated in the Am386 microprocessor—the subject of Intel's copyright claims in the present action—thereby enabling AMD to market its own competing versions of the "386" microprocessor. The arbitration award thus grants AMD the right to incorporate Intel's "386" microprocessor intellectual property into AMD products and, if the award is valid, provides AMD with the basis for defensive collateral estoppel to Intel's copyright claims in the present action.

B. The Review Of The Arbitration Award In California's State Court System.

In March 1992, AMD and Intel filed cross petitions in the Superior Court of California concerning the arbitration award, with AMD seeking to confirm and Intel seeking to "correct" the award. Notably, neither party sought review of the arbitration award in federal court under the procedures outlined in the Federal Arbitration Act ("FAA"), 9 U.S.C. § 1 *et seq.*, nor did either party seek to stay the state court action under FAA § 12.[3]

On May 22, 1992, the California Superior Court confirmed the award in its entirety and denied Intel's petition to "correct" the award by eliminating the license remedies. (App. 25a.) Intel appealed, and on July 2, 1993, the Sixth District Court of Appeal of California purported to "correct" the award by holding that Judge Phelps exceeded his authority in awarding licenses in Intel's "386" microprocessor intellectual property to AMD. (App. 43a.)

On September 2, 1993, the Supreme Court of California deemed the issues concerning the arbitration award sufficiently important to grant AMD's petition for discretionary review, thereby automatically vacating the Court of Appeal's decision.[4] The central issue before the Supreme Court of California, now fully briefed and awaiting oral argument, is the validity of the arbitration award's grant to AMD of licenses to copy and distribute its version of Intel's "386" microprocessor.[5]

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[3] Section 12 of the FAA provides that a party moving to vacate or correct an award may also move for an order to stay proceedings by an adverse party to enforce the award. 9 U.S.C. § 12.

[4] *Knouse v. Nimocks*, 8 Cal. 2d 482, 483, 66 P.2d 438, 439 (1937); *People v. Ford*, 30 Cal. 3d 209, 215-216, 178 Cal. Rptr. 196, 199 (1981) (affirming continuing validity of the rule).

[5] The parties' briefs on the merits before the Supreme Court of California were previously lodged with this Court (*see* note 2 *supra*), and they are therefore available in the Clerk's Office.

C. The Proceedings Below In The District Court And The Ninth Circuit.

As noted above, Intel filed this copyright action in the Western District of Texas in October 1991, after AMD asked for and while the arbitrator was considering an award of "386" license rights to AMD as a remedy for Intel's breaches. Intel's copyright case was subsequently transferred to the Northern District of California.

On June 22, 1992, after the February 24, 1992 arbitration award had been confirmed by the California Superior Court but before the award was "corrected" by the California District Court of Appeal, AMD sought a stay of this action pending final determination of Intel's appeal of the Superior Court order confirming the award. Intel opposed entry of a stay and made a cross motion for partial summary judgment on the basis that the arbitration award and the Superior Court confirmation of the award were invalid because the award violated the Copyright Act. (App. 60a.)

Because the parties were already litigating the validity of AMD's licenses to copy Intel's "386" intellectual property in California state courts, and because the validity of those licenses is also an issue in this action, the district court entered a stay of this action on October 29, 1992, to avoid the needlessly wasteful duplicative litigation. (App. 13a.) The stay was entered under the guidance of *Colorado River*, where this Court held that the stay of a federal court action during the pendency of state court proceedings is permissible to further the policy of "wise judicial administration" and set forth various factors to be analyzed before granting such a stay. *See* 424 U.S. at 817-819. Because federal courts have exclusive jurisdiction to enforce copyrights, the district court's stay order necessarily contemplated that the parties would return to the district court to resolve Intel's copyright claims after the state courts determined the validity of the arbitration award's grant of licenses to AMD.

In its Order to Stay, the district court recognized that Intel was asking it to review the validity of the arbitration award and to vacate the award, and expressed concern that Intel was forum shopping. (App. 23a.) Desiring to avoid duplicative effort and to discourage forum shopping, the district court left review of the arbitration award to the more advanced state proceedings—which had already resulted in a judgment by the California Superior Court. If the state courts ultimately upheld the arbitration award, the parties would necessarily return to federal court to determine and apply the preclusive effect of the award. If the license award were overturned in the state courts, the parties would return to federal court to try the case and allow AMD to assert other defenses. (App. 24a.)

Intel appealed the district court's stay order to the Ninth Circuit. Between the time the district court granted the stay and the Ninth Circuit issued its decision, the California District Court of Appeal rendered its decision "correcting" the award (App. 43a), and the Supreme Court of California granted discretionary review. Along with the arguments on the validity of the stay, the parties' briefs brought the ongoing developments in the state proceedings to the attention of the Ninth Circuit, which noted them in passing in its December 28, 1993 opinion. (App. 5a.)

Without analysis, the Ninth Circuit's opinion perfunctorily asserted jurisdiction to hear the appeal of the stay under the authority of *Moses H. Cone Memorial Hospital v. Mercury Constr. Corp.*, 460 U.S. 1 (1982), also an arbitration case involving a *Colorado River* stay. The Ninth Circuit then overturned the stay, interpreting *Colorado River* and *Moses Cone* to preclude a "wise judicial administration" stay unless the state proceedings will resolve *all* issues before the federal court—even those issues that the federal court fully intended to resolve at a later date. The opinion stated that "[u]nder the rules governing the *Colorado River* doctrine, the existence of a substantial doubt as to whether the state proceedings will [completely] resolve the federal action *precludes* the granting of a stay." (App. 7a (emphasis added).) The court expressly stated

that, regardless of other considerations favoring a stay, this incomplete-resolution consideration is "dispositive": "Since we find that there exists a substantial doubt as to whether the state court proceedings will resolve all of the disputed issues in this case, it is *unnecessary* for us to weigh the other factors included in the *Colorado River* analysis." (App. 8a n.7 (emphasis added).)

The Ninth Circuit then expressly directed the district court to review the validity of the arbitration award (App. 00a), realizing that the arbitration award had already been confirmed and reduced to judgment in state court and was currently on appeal to the California Supreme Court. The Ninth Circuit reasoned that because the FAA does not express a preference for filing an arbitration review proceeding in either state or federal court, the FAA does not prevent simultaneous review of the same award in federal and state courts. (App. 10a.) In effect, then, the district court was directed to ignore the proceedings before the Supreme Court of California and to decide for itself the validity of the arbitration award after relitigation of the issue.

Finally, the Ninth Circuit rejected AMD's argument that a district court should stay proceedings in one case when a parallel case having preclusive effect is on appeal, in order to avoid inconsistent judgments. (App. 11a.) Although this rule is binding on California state courts, the Ninth Circuit held the California rule is not binding in federal court under the full faith and credit statute, 28 U.S.C. § 1738, because it is a rule of procedure and not a rule of preclusion. (App. 12a.) The Ninth Circuit did not address whether the stay here pending the resolution of the state court appeal was nevertheless justified in order to avoid an inconsistent judgment and to promote comity and federalism by allowing the Supreme Court of California to determine the validity of the arbitration award under California law.

On February 15, 1994, the Ninth Circuit denied AMD's motion for rehearing and rejected AMD's suggestion for

rehearing en banc. To date, there have been no further proceedings in the district court.

REASONS FOR GRANTING THE WRIT

In cases such as this, district courts should be commended, not reviewed and reversed, for staying federal court litigation pending ongoing state court arbitration review. The Ninth Circuit decision to the contrary raises several special and important issues fully deserving the attention of this Court. *See* S. Ct. Rule 10.1.

In this action, there is little dispute that Intel can make out a prima facie case of copyright infringement. AMD concedes that Intel owns the "386" microcode copyright and that AMD copied that microcode. Therefore, the crux of this dispute is not Intel's claims, but AMD's defenses. One of AMD's key copyright defenses, that the arbitration award granted AMD licenses to copy and distribute the "386" microcode, obviously depends in the first instance on the validity of the arbitration award.

National policy has long favored arbitration as an expeditious, economical alternative to litigation. Here, an extraordinarily complex five-year arbitration was launched under the auspices of California courts. Dissatisfied with the result of the arbitration, Intel decided to challenge the arbitration award in the California court system; Intel did *not* initiate arbitration review proceedings in the federal court system under the mandatory procedures of the FAA. At the time the stay was entered, the Superior Court of California had already upheld the arbitration award but, under California law, that judgment was not entitled to preclusive effect because Intel had appealed it.

Recognizing that to proceed immediately with Intel's copyright claims would permit Intel to launch an improper and duplicative collateral attack on the validity of the arbitration award, the district court sensibly chose to stay the federal case after conducting a careful consideration of the relevant factors in favor of and against a stay under the guidance of *Colorado River*, 424 U.S. 800. Because

the parties would return to the federal forum to resolve the copyright claims after resolution of the arbitration issues in state courts, the stay was not tantamount to a dismissal of the federal case but rather was merely a temporary delay designed to avoid the waste of needlessly duplicated judicial effort on the issue of arbitration-award validity. The district court also understood that allowing duplicative review of the arbitration award's validity in federal court would undermine the federal policy in favor of arbitration and would affront the comity owed to state courts. (App. 21a.) Considerations of comity became all the more important when the Supreme Court of California subsequently deemed the arbitration-award dispute of sufficient importance to grant discretionary review.

Nonetheless, the Ninth Circuit brushed aside the district court's eminently sensible stay and, contrary to all norms of wise judicial administration, sound arbitration policy, and comity, commanded the district court to review under the FAA the same arbitral award that is presently under review by the Supreme Court of California. (App. 12a.) In doing so, the Ninth Circuit made three rulings which are inimical to the sensible handling of similar cases and which therefore deserve review by this Court. Review is especially important because the Ninth Circuit's errors flowed directly from unwarranted extensions of this Court's teachings in *Moses Cone*, 460 U.S. 1, extensions that likely will be repeated unless this Court grants review and reverses.

First, improperly extending this Court's jurisdictional holding in *Moses Cone* beyond stays that are tantamount to a dismissal, the Ninth Circuit incorrectly exercised appellate jurisdiction over this non-final stay order, in direct conflict with the decisions of at least three other Circuits. (*See* Part I below.) Second, in an illogical and unwarranted extension of this Court's substantive holding in *Moses Cone*, the Ninth Circuit flatly ruled out "wise judicial administration" stays intended to allow state courts to resolve a particular issue in advance of further federal court proceedings, in conflict with at least two other Circuits. (*See* Part II below.) Third, where the stay should have been

upheld, the Ninth Circuit instead improperly ordered duplicative arbitration review proceedings, contrary to the terms and policies of the FAA and to principles of comity. (*See* Part III below.) Any one of the Ninth Circuit's erroneous rulings, standing alone, would warrant this Court's grant of review to preserve the vitality of *Colorado River* and to confine *Moses Cone* within sensible limits. Taken together, the Ninth Circuit's three rulings are especially worthy of review because the decision below cannot be squared with the sound administration of the federal courts. The decision below should not be allowed to stand like a broken traffic signal, and create further mischief, at this important intersection of appellate jurisdiction, wise judicial administration, national arbitration policy, and judicial comity.

I. The Ninth Circuit Acted In Direct Conflict With At Least Three Other Circuits In Exercising Appellate Jurisdiction Under 28 U.S.C. § 1291 To Hear The Appeal Of An Interlocutory Stay Order That Does Not Have The Effect Of A Dismissal.

Citing this Court's decision in *Moses Cone*, the Ninth Circuit held conclusorily that the district court's "stay order is appealable as a final order" and therefore asserted subject matter jurisdiction over Intel's appeal. (App. 5a.) This holding represents an unwarranted extension of the jurisdictional holding in *Moses Cone* and conflicts with the holdings of at least three other Circuits. This Court's review is required to avoid erosion of finality requirements and to achieve uniformity among the courts of appeals on the important issue of when stay orders may be appealed.

Coincidentally, *Moses Cone* also arose in the arbitration context. There, respondent filed a federal action seeking an order compelling arbitration under FAA § 4. Acting under the authority of *Colorado River*, the district court stayed respondent's federal action pending resolution of petitioner's state court suit, which sought a declaration that there was no right to arbitration. Before reaching the stay issues (and overturning the stay), the *Moses Cone*

Court first considered whether the stay order was properly appealable to the court of appeals.

The Court noted "the usual rule that a stay is not ordinarily a final decision for purposes of § 1291, since most stays do not put the plaintiff 'effectively out of court.'" 460 U.S. at 10 n.11 (quoting *Idlewild Liquor Corp. v. Epstein*, 370 U.S. 713 (1962)). However, the stay at issue in *Moses Cone* did constitute a final, appealable order because it effectively terminated the federal court's involvement with the case. The Court stated:

> [The] issue of arbitrability was the *only substantive issue present in the federal suit.* Hence, a stay of the federal suit pending resolution of the state suit meant that there would be *no further litigation in the federal forum*; the state court's judgment on the issue would be res judicata. Thus, . . . [respondent] was "effectively out of court" [and] *this stay order amounts to a dismissal of the suit.*

460 U.S. at 10 (emphasis added). The Court held in the alternative that, even if the stay in *Moses Cone* was not a final order, it was appealable under the exception to the finality rule recognized in *Cohen v. Beneficial Loan Corp.*, 337 U.S. 541 (1949). In that context, the Court again emphasized that the stay order in *Moses Cone* was a *dismissal* in practical effect: "It is not clear why the judge chose to stay the case rather than dismiss it outright . . . . Whatever the reason, however, *the practical effect of his order was entirely the same* for present purposes, and the order was appealable." 460 U.S. at 13 (emphasis added).

At the same time, the *Moses Cone* Court was careful to point out that not *all* stays are appealable, but only those stays that are tantamount to a dismissal because they effectively put a party out of federal court. "*We do not hold that an order becomes final merely because it may have the practical effect of allowing a state court to be the first to rule on a common issue.* We hold only that a stay order is final when the sole purpose and effect of the stay are precisely to surrender jurisdiction of a federal suit to a

state court." *Id.* at 10 n.11 (emphasis added). Therefore, "the dissent errs in likening the stay in this case to *an ordinary delay in the interest of docket control.*" *Id.* (emphasis added). Thus, *Moses Cone* carved out a narrow exception to the usual rule that stay orders are not appealable, applicable only when the stay is tantamount to a dismissal.

Here, the district court's stay order clearly did not have the effect of dismissing the federal action. Rather, the district court expressly intended to activate Intel's copyright suit after the California courts finally resolved the issue of the validity of the arbitration award. (App. 24a.) This Court should grant review here to assure that the requirement of finality is not eroded by the inappropriate extension of the *Moses Cone* jurisdictional rule to a stay not having the effect of dismissing the federal action. Indeed, the jurisdictional point in *Moses Cone* was itself decided by a 6-3 Court over a dissent (Rehnquist, J., joined by Burger, C.J. & O'Connor, J.) emphasizing the importance of the congressional policy allowing appellate review only of judgments that are *final.* The concerns raised in the *Moses Cone* dissent are all the more pertinent here.

At least three other Circuits have held that *Moses Cone* does *not* permit appeal of a stay pending state court proceedings in circumstances such as those here, where the district court specifically or necessarily contemplates further proceedings in the federal forum. For example, in *Lunde v. Helms*, 898 F.2d 1343 (8th Cir.), *cert. denied*, 498 U.S. 897 (1990), the district court stayed the plaintiff's federal civil rights claims pending parallel state administrative and judicial review proceedings. The Eighth Circuit held that *Moses Cone* did not create jurisdiction to hear the appeal because the stay did not effectively dismiss the case from the federal forum:

> "[D]etermination of the finality—and therefore the appealability—of the [district court order] first requires that we determine the substance of what was intended." [Citation]. *Although the stay in the present*

> *case is on its face indefinite in duration, the order contemplates further proceedings in federal court and thus does not have the practical effect of a dismissal.* We think this stay merely temporarily suspended the federal case . . . . [W]e hold the district court did not clearly abuse its discretion in staying the federal case pending resolution of the on-going state proceedings. *In our view, this is a matter of docket management.*

898 F.2d at 1345 (emphasis added).[6]

The stay in *Lunde* is indistinguishable from the stay in this case: both are stays "indefinite in duration" that "contemplate[] further proceedings in federal court and thus [do] not have the practical effect of a dismissal." 898 F.2d at 1345. The Eighth Circuit, in conflict with the decision of the Ninth Circuit in this case, thus holds that a stay order that is not tantamount to a dismissal is not appealable.[7]

The Seventh Circuit aligns with the Eighth Circuit against the Ninth Circuit in acknowledging the *Moses Cone* distinction between appealable and non-appealable orders to stay pending state court proceedings. In *Crotty v. City of Chicago Heights*, 857 F.2d 1170 (7th Cir. 1988), the court held it had no jurisdiction to hear the appeal of a stay order because, while the district court stayed the federal suit pending state court resolution of some of the disputed claims, the district court retained jurisdiction over a federal RICO claim:

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[6] In reaching this conclusion, the court correctly looked to *Landis v. North American Co.*, 299 U.S. 248, 254-55 (1936), which held that "the power to stay proceedings is incidental to the power inherent in every court to control the disposition of the cases on its docket, with economy of time and effort for itself, for counsel, and for litigants."

[7] *See also Boushel v. Toro Co.*, 985 F.2d 406, 408 (8th Cir. 1993) ("The *only* time that an order granting a stay will be considered a final order is if it is tantamount to a dismissal and it effectively ends the litigation . . . . To determine whether the district court meant to end the litigation, we must examine the *substance* of what the court intended" (emphasis added)).

> [T]he district court here specifically contemplated further, concurrent proceedings in federal court. . . . This is not a case where the court has "surrendered jurisdiction over a federal lawsuit," in deference to parallel state court proceedings. *Moses Cone*, 460 U.S. at 10 n.11 . . . . We therefore hold that . . . [the] stay order was not a final order for the purposes of § 1291. The appeal is dismissed for want of jurisdiction.

857 F.2d at 1174.

In *Crotty*, the Seventh Circuit carefully distinguished the unappealable stay there "invok[ing] the rationale of *Colorado River*" from the appealable stay in *Moses Cone*: "Unlike the *Colorado River* stays contemplated in *Moses Cone*, however, the district court specifically retained jurisdiction over . . . an essential part of the federal suit." *Id.* For the same reason that the stay in *Crotty* cannot be appealed because of retained jurisdiction over the RICO claim, the stay in this case cannot be appealed because of retained jurisdiction over Intel's copyright claims.

The Tenth Circuit also recognizes the distinction between unappealable stays and stays that are tantamount to a dismissal and thus appealable. *See Pioneer Properties, Inc. v. Martin*, 776 F.2d 888, 891 (10th Cir. 1985) (stay not appealable because plaintiff can return to federal court: "*Moses H. Cone* is factually distinguishable from . . . the instant case, because it involved complete dismissal with no expectation of resuming the federal suit"); *Hinkle v. Delta Dental Plan of Oklahoma*, 1993 WL 141089 (10th Cir. 1993) (unpublished opinion referenced in table at 992 F.2d 1223) (plaintiff "is not effectively out of federal court in this case. . . . The stay order, therefore, is not a final order under 28 U.S.C. § 1291").

Here, the district court expressly intended to resume litigation of Intel's copyright claims after state court resolution of the validity of the arbitration award. The Ninth Circuit thus asserted jurisdiction to hear the appeal of a non-final order. These decisions of the Seventh, Eighth,

and Tenth Circuits cannot be squared with the decision below and, even if this issue stood alone, this conflict among the Circuits would constitute a special and important reason warranting review of this case.

II. The Ninth Circuit Applied An Erroneous Standard Of Review To The Stay Order, In Conflict With The Decisions Of At Least Two Other Circuits Which Have Held That A Stay Pending State Court Proceedings Is Proper Even If The State Proceedings Will Not Resolve All Issues Before The District Court.

After erroneously asserting jurisdiction over this non-appealable interlocutory order, the Ninth Circuit further erred in holding that, no matter how many factors might favor a stay in circumstances such as those here, this Court's decision in *Moses Cone* flatly forbids a "wise judicial administration" stay unless the district court "has 'full confidence' that the parallel state proceeding will end the [federal] litigation" completely. (App. 7a (citation omitted).) This holding both (1) trivializes the power to enter "wise judicial administration" stays recognized in *Colorado River* and (2) inappropriately extends the substantive holding of *Moses Cone* beyond the context of stays that are equivalent to dismissals. This Court should take this opportunity to reject the Ninth Circuit's illogical "all or nothing" rule and to endorse the reasoning of those courts, including at least two courts of appeals, that have granted or upheld stays pending state court resolution of certain common issues even though the state court may not resolve all issues.

A. The Ninth Circuit Improperly Accorded "Dispositive" Weight To One Of Many Stay-Related Factors.

Under *Colorado River*, "the decision whether to defer to the state courts is necessarily left to the discretion of the district court in the first instance." *Moses Cone*, 460 U.S. at 19. The appellate court cannot substitute its judgment for the discretion of the district court, but must

examine whether the district court's evaluation of the relevant factors comports with *Colorado River*. *Id.*

In discussing factors to be considered by a district court before deferring to pending state court proceedings, *Colorado River* carefully noted that "[n]o one factor is necessarily determinative; a carefully considered judgment taking into account both the obligation to exercise jurisdiction and the combination of factors counselling against that jurisdiction is required." 424 U.S. at 818-19. The *Colorado River* test "does not rest on a mechanical checklist, but on a careful balancing of the important factors as they apply in a given case," *Moses Cone*, 460 U.S. at 16, and each factor "is to be applied in a pragmatic, flexible manner with a view to the realities of the case at hand." *Id.* at 21.

Here, the district court carefully identified the relevant factors to be considered in granting this stay. The district court set forth and considered the factors listed in *Colorado River* and *Moses Cone*, and then identified an additional factor particularly relevant in this case: "Where the parties consent to arbitrate, it disservices the arbitration process to permit the unhappy party to attack collaterally the result when the issues are pending directly before the state court which is empowered and intended to review the decision." (App. 23a.) In addition, the district court outlined other factors supporting its decision to stay:

> The state court was the first to obtain jurisdiction commencing over five years ago. Whether the arbitrator exceeded his authority can only be determined by reference to contract law. And, staying the federal court case serves to avoid piecemeal litigation which in this case has become a trilogy: an arbitration, a state court appeal, and a federal lawsuit. Further, if the action is not stayed, the possibility of the courts deciding the identical issue with conflicting results hangs in the air. Although the possibility of conflicting results is not determinative, it is a factor to be considered.

(Id.) The district court concluded that "given the unique facts of this case and based on guidance from *Colorado River*, a stay of the federal case is appropriate as an exceptional circumstance under a policy of wise judicial administration." *(Id.)*

In contrast to the district court's careful *Colorado River* analysis of all relevant factors, the Ninth Circuit's decision to reverse the stay is based on its evaluation of a single factor. The Ninth Circuit expressly found a single consideration—whether the state proceedings would necessarily resolve all issues in the federal case—to be "dispositive" and held that it was "unnecessary for [the Ninth Circuit] to weigh the other factors included in the *Colorado River* analysis." (App. 8a n.7) By focusing on a single factor, the Ninth Circuit not only disregarded this Court's direction to carefully balance all relevant factors, but also imposed its own judgment on the propriety of the stay rather than reviewing the district court's order for abuse of discretion. Further, although giving determinative weight to a single consideration was improper in itself, the Ninth Circuit greatly compounded the error by making "dispositive" a factor drawn from *Moses Cone* that cannot sensibly be applied when, as here, the district court expressly intends to resolve all issues remaining after completion of the state court proceedings.

B. In Direct Conflict With At Least Two Other Circuits, The Ninth Circuit Mistakenly Construed *Moses Cone* To Preclude A Stay Pending State Court Resolution Of Some But Not All Issues Before The Federal Court When The Federal Court Retains Jurisdiction To Resolve The Remaining Issues.

Inaptly drawing on *Moses Cone*, 460 U.S. at 28, the Ninth Circuit overturned the stay here because of "the existence of a substantial doubt as to whether the state proceedings will resolve the federal action." (App. 7a.) While the incomplete-resolution consideration was germane to the validity of the stay in *Moses Cone*, that consideration

has no pertinence here because the stay in question is not tantamount to dismissal of the federal action. *Moses Cone* simply held that district courts may not enter the type of stay that is tantamount to a dismissal if the state court cannot resolve all issues that are before the federal court—obviously, because some issues would then remain unadjudicated by either forum. The Ninth Circuit mistakenly extended *Moses Cone*'s holding to apply to *all* "wise judicial administration" stays, even when the district court expressly intends to adjudicate the issues remaining after state court resolution of a particular common issue and thus there is no reason to expect the state court proceedings to resolve *all* issues in the federal case.

This Court's review is required because the Ninth Circuit's inapt insistence on a complete state court resolution as a *sine qua non* prevents the issuance of "wise judicial administration" stays even in otherwise compelling circumstances (such as those here) and needlessly burdens the burgeoning dockets of district courts. This result is inefficient, unwarranted, and leads to anomalous results, as in this case: the Ninth Circuit forces the district court to review a California arbitration award which had already been reviewed by the California Superior Court at the time the stay was entered and is now pending before the Supreme Court of California.

The rule announced by the Ninth Circuit not only is inappropriate outside the context of stays tantamount to dismissal, but also conflicts with the decisions of at least two other Circuits. In *Ingersoll-Rand Financial Corp. v. Callison*, 844 F.2d 133, 138 (3d Cir. 1988), despite the fact that "the state-court litigation does not precisely correspond with the federal," the district court stayed the federal plaintiff's action to collect on a promissory note in favor of a state court action brought by the federal defendant to cancel the note. The Third Circuit recognized that a stay or dismissal under *Colorado River* "[o]rdinarily . . . contemplates that parallel state-court litigation will completely resolve the issues between the parties and that the federal court will have nothing further to do with the

case," citing the *Moses Cone* passage from which the Ninth Circuit drew its "all-or-nothing" rule. *Id.* at 138 (citing 460 U.S. at 28). Unlike the Ninth Circuit, however, the Third Circuit did not interpret *Moses Cone* to prohibit a temporary stay allowing state court resolution of some of the issues before the federal court:

> In the unusual circumstances of this case, where federal policy counsels deferral to a state proceeding which is not strictly parallel, some matters arguably will remain for resolution after the state proceedings are concluded . . . . When a final judgment is rendered in the state proceeding and pleaded in this one, the district court will determine the effect of that judgment by applying principles of res judicata to determine what issues of fact or law remain in the case.

Id. Accordingly, the Third Circuit upheld the stay.

Like the Third Circuit, the Seventh Circuit has also upheld stays pending state court proceedings when the state court will not necessarily resolve all issues before the federal court. In *Day v. Union Mines*, 862 F.2d 652 (7th Cir. 1988), the dispute in federal court involved the interpretation of a payment provision of a stock purchase agreement. The Seventh Circuit upheld a stay pending related state court proceedings even though "[t]he precise issue raised in the district court . . . was not present in state court at the time the stay was entered . . . [and the] resolution of the state claims included in the pleadings at the time the stay was entered theoretically would not necessarily have disposed of the payment provision issue in federal court." *Id.* at 656. Similarly, in *Interstate Material Corp. v. City of Chicago*, 847 F.2d 1285 (7th Cir. 1988), the Seventh Circuit upheld a *Colorado River* stay pending related state court proceedings despite the fact that the federal suit included additional plaintiffs, defendants, and issues not present in the state court. *Id.* at 1277-1278. This Court should grant review to resolve this split in the Circuits and to approve of the pragmatic

and flexible rule adopted by the Third and Seventh Circuits.[8]

In addition, the Ninth Circuit's "rule" here clashes with the well-established principle that a district court may stay proceedings of matters within the exclusive jurisdiction of the federal courts pending arbitration of other issues.[9] The Ninth Circuit's anomalous holding would thus make it proper to stay a federal copyright case pending arbitration of the defendant's defense of license, but make it improper to stay the federal case pending state court review of the arbitration award that grants the defendant its license.[10] This Court should grant certiorari to reject this meaningless distinction. There is no principled reason to forbid a federal court, in the proper circumstances, from staying a case involving an exclusively federal claim pending the appeal of a state court decision that would provide the federal defendant a defense to that claim. *See Pirkle v. Ogontz Controls Co.*, 1987 WL 19882 (E.D. Pa. 1987) (district court stays patent/antitrust action pending appeal of

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[8] District courts from other Circuits have similarly granted *Colorado River* stays pending state-court resolution of some, but not all, issues before the federal court. *See, e.g., Neptune v. McCarthy*, 706 F. Supp. 958, 965-966 (D. Mass. 1989) (granting *Colorado River* stay of entire federal case, including an exclusively federal claim, while state court proceedings resolve claims common to both courts: "[I]t appears obvious that a stay of the federal proceedings involving Count One, while the state court adjudicates Counts Two, Three, and Four, will result in less duplicative litigation activity and the likelihood of a more expeditious, more efficient, and less expensive resolution of the entire controversy between the parties than would occur absent such a stay").

[9] *See Levin v. Ripple Twist Mills, Inc.*, 416 F. Supp. 876, 879-81 (E.D. Pa. 1976), *appeal dismissed*, 549 F.2d 795 (3d Cir. 1977) (plaintiff's patent infringement claims stayed pending arbitration of the defendant's affirmative defense of license); *Hikers Industries, Inc. v. William Stuart Industries (Far East) Ltd.*, 640 F. Supp. 175, 178 (S.D.N.Y. 1986) (defendant's motion for stay granted; "[a]ll of plaintiff's claims against [defendant] need not be addressed in the arbitration . . . to support a stay of the entire action").

[10] As explained in the next section, under California law the Intel/AMD arbitration is currently pending and will remain so until the California Supreme Court renders a final decision.

a state court decision that the federal defendant is entitled to ownership of the patent), *aff'd*, 1988 WL 60737 (Fed. Cir. 1988) (unpublished opinion referenced in table at 852 F.2d 1293).

III. By Requiring The District Court To Undertake A Review Of The Arbitration Award, Paralleling The Review In The California Courts, The Ninth Circuit Violated The Express Provisions And Underlying Policy Of The FAA As Well As Fundamental Principles Of Comity.

In the view of the district court, the paramount consideration supporting a stay of the district court proceedings here was the fact that Intel had already challenged the arbitration award in California state courts and lost at the trial court level and that a federal court attack on the award would constitute a form of forum-shopping. (App. 21a.) In overturning the stay, the Ninth Circuit knew that the Supreme Court of California was then (and is now) considering the validity of the arbitration award but nonetheless expressly directed the district court to begin forthwith its own review of the arbitration award. (App. 12a.) Intel was thereby granted simultaneous review of a single arbitration award in both state and federal court. This result is not only contrary to the guidance of *Colorado River*, but is also entirely inconsistent with the FAA and with fundamental principles of judicial comity. This Court should grant review so that, in the future, district courts are empowered to deal sensibly with similar circumstances.

A. The Duplicative Arbitration Proceedings Ordered By The Ninth Circuit Are Contrary To The Express Procedures Of The FAA And Thwart The Policies Of That Act.

The Ninth Circuit decision should be reviewed and reversed by this Court because it improperly interprets the FAA to allow federal court review of an arbitration award that has already been reviewed by a state court, and because it establishes precedent supporting future improper

collateral attacks of arbitration awards in violation of the FAA.

As an initial matter, the Ninth Circuit imposed an erroneously narrow interpretation of the FAA's mandatory stay provision. Section 3 of the FAA provides:

> If any suit or proceeding be brought in any of the courts of the United States upon any issue referable to arbitration under an agreement in writing for such arbitration, the court in which such suit is pending, upon being satisfied that the issue involved in such suit or proceeding is referable to arbitration under such an agreement shall on application of one of the parties stay the trial of the action *until such arbitration has been had.*

9 U.S.C. § 3 (emphasis added). The Ninth Circuit concluded that FAA § 3 did not mandate the district court's stay because it concluded that an "arbitration has been 'had' within the meaning of the FAA" as soon as an award is made; thus, the arbitration was "had" by February 1992 when the arbitration award was rendered. (App. 10a.)

This conclusion ignores the fact that Intel chose to initiate review proceedings in California state court after the award was announced; having invoked California law, Intel should be bound by the effect of that law on the status of the arbitration. Under California law, if the parties seek review of an arbitration award, the arbitration matter is deemed to continue until the state court proceedings to review the award are exhausted. *See Thriftimart, Inc. v. Superior Court*, 202 Cal. App. 2d 421, 426, 21 Cal. Rptr. 19, 21-22 (1962) ("regardless of what the decision may be upon appeal, the arbitration matter is still pending until final determination upon appeal"). Here the award cannot be enforced until AMD's appeal *sub judice* with the Supreme Court of California is decided. Thus, Intel's own decision to seek review in the courts of California had the effect of rendering the arbitration incomplete, pending, and ongoing. Manifestly, the arbitration is incomplete under California law and therefore has not yet

"been had" within the meaning of § 3 of the FAA; therefore, the stay was mandatory upon AMD's timely application.

Moreover, contrary to the Ninth Circuit's decision, the denial of a stay in this case contravenes core policies of the FAA and undermines the arbitration process; these concerns place the stay well within the district court's sound discretion under the guidance of *Colorado River*. The FAA is designed to promote the speedy and final resolution of disputes by private informal means without the costs and delays inherent in litigation. *See Robbins v. Day*, 954 F.2d 679, 682 (11th Cir.), *cert. denied*, 113 S.Ct. 201 (1992) (explaining that the purpose of the FAA is to relieve congestion in the courts and to provide parties with a speedy and less costly alternative to litigation). Arbitration does not serve this intended purpose if, as here, Intel is permitted to seek review of the award in *both* state and federal court contemporaneously with the attendant duplication of time and expense.

While the FAA does not express a preference for review of an award in any particular court, state or federal, it clearly does not contemplate that a party can challenge an award simultaneously in *two* separate courts. The FAA contemplates that a party will file a single petition to vacate an arbitration award. This is borne out by the plain language of the FAA, which empowers courts to stay duplicate proceedings filed to review the validity of an award. FAA § 12.[11]

Not only does the FAA forbid this review of the validity of the arbitration award in the district court during the pendency of parallel state court review, but Intel also failed to comply with the FAA's mandatory procedures for seeking to vacate or modify an award in federal court. Under § 12 of the FAA, a party seeking federal court modifi-

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[11] 9 U.S.C. § 12. Section 12 provides that a party moving to vacate or correct an award may also move for an order to stay proceedings by an adverse party to enforce the award. *See* 3 Fed. Proc. Arbitration, L. Ed. § 4:122, at 59 (1981).

cation, correction, or vacation of an arbitration award must serve its motion upon the adverse party or his attorney within three months after the award is filed or delivered. 9 U.S.C. § 12. Thus, the FAA "has made section 12 service of notice a precondition to judicial review of the award" in federal court. *Sanders-Midwest v. Midwest Pipe Fabricators, Inc.*, 857 F.2d 1235, 1238 (8th Cir. 1988). *See also Piccolo v. Dain, Kalman & Quail, Inc.*, 641 F.2d 598, 600 (8th Cir. 1981) ("A party to an arbitration award who fails to comply with the statutory precondition of timely service of notice forfeits the right to judicial review of the award"). Intel never took any step to initiate a federal court challenge to the arbitration award, preferring instead to attack the award in California courts.

Intel's failure to initiate a timely federal court challenge to the arbitration award precludes it from attacking the validity of the award in the district court and thus supports the district court's stay order. The Federal "Arbitration Act provides the *exclusive* remedy for challenging conduct that taints an arbitration award within the Act's coverage. . . . When, as here, a suit is *in substance* no more than a collateral attack on the award itself, it is governed by the provisions of the Act." *Foster v. Turley*, 808 F.2d 38, 41-42 (10th Cir. 1986) (emphasis added). *See also Corey v. New York Stock Exchange*, 691 F.2d 1205, 1211-13 (6th Cir. 1982) (same). If a party wishes to avoid the preclusive effect of an arbitration award in subsequent litigation in federal court, that party must seek to vacate or modify the award under the provisions of the FAA. Otherwise, the party is estopped from contesting the validity of the award. *Corey*, 691 F.2d at 1211-12; *see also Dallow Indus. v. Jordache Enter., Inc.*, 631 F. Supp. 774, 779 (S.D.N.Y. 1985) (plaintiff's claims barred by res judicata effect of arbitration award: although plaintiff now "quarrel[s] with the completeness of the award, it should have attacked it directly through a motion to vacate, modify, or correct it. It may not here subject the award to collateral attack").

Although Intel has not formally made a motion to vacate the arbitration award pursuant to FAA § 10, 9 U.S.C. § 10,

or to modify or correct the award pursuant to FAA § 11, 9 U.S.C. § 11, Intel obviously seeks to collaterally attack the arbitration award,[12] and the Ninth Circuit has directed the district court to conduct an arbitration review under the FAA. (App. 12a.) Whether the Ninth Circuit's directive to the district court to review the validity of the arbitration award is viewed as approval of collateral attack of the award or as approval of a direct review of the award absent compliance with the notice provision of FAA § 12, such review of the award is clearly improper under the FAA. The Ninth Circuit's decision thus violates the letter, as well as the policy, of the FAA; the Ninth Circuit should instead have upheld the district court stay as the "wise judicial administration" that it was.

B. The Ninth Circuit Also Ignored A Federal Court's Inherent Power To Stay An Action Pending Appeal Of A State Court Judgment; Such Stays Foster The Principles Of Comity And Avoid Anomalous And Wasteful Results.

The principles of comity, and the values of repose and finality served by res judicata, justify the stay of federal proceedings pending the appeal of a state court judgment which will have ultimate preclusive effect in the federal action. The Ninth Circuit's reversal of the stay in this case belittles the importance of these basic principles. Moreover, to the extent the Ninth Circuit's reversal requires the district court to review or ignore the state review proceedings, the reversal violates the *Rooker-Feldman* jurisdictional rule, which is also based on the principles of comity.

State court decisions are entitled to res judicata effect in federal courts. *See, e.g., Moses Cone*, 460 U.S. at 10. However, under California's preclusion rules, judgments on appeal (as was the California Superior Court order con-

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[12] *See* Intel's Reply Brief in the Ninth Circuit at 21-22 (App. 65a) ("Because the illegality of the arbitration award is again fully briefed and ripe for decision . . ., Intel asks this Court to reach that question in deciding the appeal").

firming the arbitration award at the time of the district court's stay order), have no preclusive effect until the appeal is resolved.[13] In this situation, federal courts have long been recognized to have the power to stay an action pending resolution of the state appellate process and should exercise that power to avoid the difficulties and risks of inconsistent judgments and to avoid interference with the state courts. The Ninth Circuit decision ignored this principle and, if allowed to stand as precedent, the Ninth Circuit's decision will lead to increased friction between state and federal courts, the entry of inconsistent judgments of inconclusive effect, and inappropriate review of the decisions of state courts by inferior federal courts.

The California rule denying preclusive effect to judgments on appeal is a minority rule that creates great difficulties for the ultimate resolution of disputes when a second court relitigates issues on appeal in California's courts. As stated in a leading treatise,

> Despite the manifest risks of [the majority rule] resting preclusion on a judgment that is being appealed, the alternative of retrying the common claims, defenses, or issues is even worse. All of the values served by res judicata are threatened or destroyed by the burdens of retrial, the potential for inconsistent results, and the occasionally bizarre problems of achieving repose and finality that may arise.

18 Charles A. Wright & Arthur R. Miller, *Federal Practice and Procedure* § 4433, at 313 (1981). These difficulties "underscore the proposition that strong reasons must be found to justify proceeding with the second action pending

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[13] *See Eichman v. Fotomat Corp.*, 759 F.2d 1434, 1439 (9th Cir. 1985); *Agarwal v. Johnson*, 25 Cal.3d 932, 954 n.11, 603 P.2d 58, 72 n.11 (1979). In contrast, "[t]he established rule in the federal courts is that a final judgment retains all of its res judicata consequences pending decision of the appeal . . . but federal courts will honor the contrary rule of a state court whose judgment is offered in a federal action." 18 Charles A. Wright & Arthur R. Miller, *Federal Practice and Procedure* § 4433, at 309-11 (1981).

appeal from the first judgment" and "suggest that ordinarily it is better to avoid the res judicata question by dismissing the second action or staying trial and perhaps pretrial proceedings pending resolution of the appeal in the first action." *Id.* at 313, 315.

Until the Ninth Circuit reversed the stay in this case, the ability of a federal court to stay its proceedings pending the appeal and final resolution of an earlier judgment having preclusive effect has been unquestioned.[14] Therefore, a federal court's power to stay pending the appeal of a parallel case is within the broader "power to stay proceedings . . . incidental to the power inherent in every court to control the disposition of the cases on its docket, with economy of time and effort for itself, for counsel, and for litigants." *Landis v. North American Co.*, 299 U.S. 248, 254-55 (1936).

Under this body of law, the district court had full power to stay the proceedings below pending final resolution of the appeal from the California Superior Court judgment confirming the arbitration award because, when finalized, the appeal will have preclusive effect on significant issues in the federal action. The effect and partial purpose of the stay is to avoid the possibility of inconsistent results, to avoid unnecessary conflict of jurisdiction, and to most ef-

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[14] "The power of a federal court to stay its proceedings in such circumstances is unquestioned." 1B James W. Moore et al., *Moore's Federal Practice* ¶ 0.416[4] n.11 (2d ed. 1993). *See, e.g., Bailey v. Ness*, 733 F.2d 279, 283 (3d Cir. 1984) ("[W]hether or not a state court regards a decision of a trial court pending appeal to preclude relitigation of identical issues, the trial court judgment does not prevent the district court from staying a proceeding . . . . Accordingly, we . . . [direct the district court] to stay further proceedings until final disposition of the case in all of the available state courts"); *Ray v. Hasley*, 214 F.2d 366, 368 (5th Cir. 1954) ("It may be that irrespective of whether the judgment in the state court operated as res judicata pending appeal, the federal court should take into consideration the possibility of a reversal of that judgment . . . and should mould its orders and judgment so as to avoid any conflict of jurisdiction and to accomplish substantial justice. The federal court may properly stay proceedings before it until a final termination of the proceedings in state court") (citations omitted).

ficiently resolve the central dispute between the parties. These concerns fully justify the district court's order to stay.

The Ninth Circuit found that, under the full faith and credit statute, 28 U.S.C. § 1738, the district court was not required to apply the California rule requiring a stay pending the appeal of a judgment having preclusive effect. (App. 11a.) Even if true, this conclusion largely misses the point: the Ninth Circuit did not address whether the stay was justified under the analogous *federal* rule to avoid inconsistent judgments and interference with state appellate process. If the Ninth Circuit is correct that the district court is not required to apply the California rule because it is a rule of procedure and not a rule of preclusion, the Ninth Circuit nevertheless should have recognized that these considerations supported the district court's discretionary stay order under the guidance of *Colorado River*. This is a situation where the unquestioned power of a district court to stay pending final appellate resolution of a judgment having preclusive effect was properly exercised to avoid inconsistent judgments and to foster the basic principles of comity that underlie our federal system. This Court should reaffirm the ability of a district court to order a stay pending the appeal of a state court judgment that will have preclusive effect in the federal action.

Not only did the principles of comity fully justify the district court's stay, but to the extent that the district court must review or ignore the California state court review proceedings, the principles of comity also *mandate* the stay. As the district court suggested in its order to stay (App. 23a n.8), Intel's request for a review of the arbitration award in federal court, despite a parallel review in state court that has already been reduced to judgment, essentially asks the district court to violate the jurisdictional rule known as the *Rooker-Feldman* doctrine. *See District of Columbia Court of Appeals v. Feldman*, 460 U.S. 462 (1983), and *Rooker v. Fidelity Trust Co.*, 263 U.S. 413 (1923) (stating the rule that as a court of original jurisdiction, a United States District Court has no au-

thority to review the determinations of a state court in judicial proceedings). Intel has openly invited the district court and the Ninth Circuit to review both the arbitration award and its state court confirmation on the basis that they are illegal.[15] However, the lower federal courts have no jurisdiction to review state court judgments on the basis of their illegality or unconstitutionality; only the Supreme Court has jurisdiction to review state court judgments. *See* 28 U.S.C. § 1257.

Therefore, once state review of an arbitration results in a judgment confirming or vacating the award, a lower federal court has no jurisdiction to review that award because such federal review would necessarily result in either an improper review of the state court judgment or require the federal court to improperly ignore the state court judgment. Ignoring or reviewing the state court judgment is just as improper when the judgment is undergoing state appeal as when the judgment is final. *See Hale v. Harney*, 786 F.2d 688, 691 (5th Cir. 1986) ("We hold no warrant to review even final judgments of state courts, let alone those which may never take final effect because they remain subject to revision in the state appellate system"); *Port Authority Police Benevolent Ass'n v. Port Authority of New York & New Jersey Police Dept.*, 973 F.2d 169, 177 (3d Cir. 1992) (not only does *Rooker-Feldman* apply to bar lower federal court review of orders issued by a state's highest court, but "most courts of appeals to consider the issue have held that the *Rooker-Feldman* doctrine applies with equal force when litigants seek federal review

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[15] *See* Intel's Brief to the Ninth Circuit (App. 62a-63a) ("When a *state* or a private arbitrator interferes with [rights under the Copyright Act], the federal government has a compelling interest in protecting the federal copyright system and the rights of a federal copyright holder") (emphasis added); Intel's Reply Brief to the Ninth Circuit at 21-22 (App. 64a-65a) ("The issue [of the legality of the arbitration award] was fully briefed and argued, but the district court declined to deny the stay based on it. . . . because the illegality of the arbitration award is again fully briefed and ripe for decision . . . Intel asks this Court to reach that question in deciding the appeal").

of the orders of lower state courts"); *Thomas v. Kadish*, 748 F.2d 276, 282 (5th Cir. 1984), *cert. denied*, 473 U.S. 907 (1985). Any other rule would encourage forum shopping and provoke antagonism between state and federal courts.

CONCLUSION

For the foregoing reasons, a petition for a writ of certiorari should be granted.

Respectfully submitted,

CARL R. SCHENKER, JR.
Counsel of Record
THOMAS M. MCCOY
DALE M. CENDALI
O'MELVENY & MYERS
555 13th Street, N.W.
Suite 500 West
Washington, D.C. 20004
(202) 383-5300

ROBERT B. MORRILL
JUSTIN T. BECK
SKJERVEN, MORRILL, MACPHERSON,
FRANKLIN & FRIEL
25 Metro Drive, Suite 700
San Jose, California 95110
(408) 283-1222

Attorneys for Petitioner

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(i) Order of the United States District Court, Northern District of California, San Jose Division, following defendant's motion to stay and plaintiff's motion for partial summary judgment, *Intel Corp. v. Advanced Micro Devices, Inc.*, Civil Action No. C92-20039 PVT (Oct. 29, 1992) 13a

(ii) Minute Order of the Superior Court of the State of California, County of Santa Clara, granting petition to confirm and denying petition to correct arbitration award, *In the Matter of the Arbitration, Advanced Micro Devices, Inc. and Intel Corp.*, Case No. 626879 (May 22, 1992) 25a

(iii) Order of the Superior Court of the State of California, County of Santa Clara, granting petition to confirm and denying petition to correct arbitration award and judgment, *In the Matter of the Arbitration Between Advanced Micro Devices, Inc. and Intel Corp.*, Case No. 62879 (May 29, 1992), incorporating and attaching the Award of Arbitrator, dated February 24, 1992, as Exhibit A. 36a

(iv) Decision and order of the California Court of Appeal, Sixth District, in *Advanced Micro Devices, Inc. v. Intel Corporation*, 16 Cal. App. 4th 220, 20 Cal. Rptr. 2d 73 (July 2, 1993) 43a

(v) Order of the Supreme Court of California, In Bank, granting review in *Advanced Micro Devices, Inc. v. Intel Corp.*, ___Cal. 3d ___, 23 Cal. Rptr. 2d. 100 (Sept. 2, 1993) 55a

APPENDIX C

(i) Order of the United States Court of Appeals, Ninth Circuit, denying petition for rehearing and rejecting suggestion for rehearing en banc, *Intel Corp. v. Advanced Micro Devices*, No. 92-16899 (Feb. 15, 1994) .. 56a

(ii) Order of the United States Court of Appeals, Ninth Circuit, denying motion for stay of mandate pending petition for writ of certiorari, *Intel Corp. v. Advanced Micro Devices*, No. 92-16899 (Feb. 23, 1994) 57a

(iii) Notice from the clerk of the United States District Court, Northern District of California, of the filing of the mandate of the United State Court of Appeals for the Ninth Circuit in *Intel Corp. v. Advanced Micro Devices, Inc.*, No. C92-20039-WAI(PVT) (Feb. 28, 1994) 58a

(iv) Order of Justice Sandra D. O'Connor denying application to recall and stay the mandate pending petition for writ of certiorari, *Advanced Micro Devices, Inc. v. Intel Corp.*, Application No. A-731 (March 11, 1994) 59a

APPENDIX D

(i) Excerpts from Intel's memorandum in support of its cross motion for partial summary judgment and opposing AMD's motions for summary judgment or for a stay before the United States District Court, Northern District of California, *Intel Corporation v. Advanced Micro Devices, Inc.*, Civil Action No. C92-20039 PVT (August 4, 1992) 60a

(ii) Excerpts from opening brief of appellant Intel Corporation before the United States Court of Appeals, Ninth Circuit, *Intel Corp. v. Advanced Micro Devices, Inc.*, No. 92-16899 (Nov. 18, 1992) 62a

(iii) Excerpts from reply brief of appellant Intel Corporation before the United States Court of Appeals, Ninth Circuit, *Intel Corp. v. Advanced Micro Devices, Inc.*, No. 92-16899 (Feb. 1, 1993) 64a

APPENDIX E

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APPENDIX A

UNITED STATES COURT OF APPEALS, NINTH CIRCUIT.

No. 92-16899.

INTEL CORPORATION,
Plaintiff-Appellant,

v.

ADVANCED MICRO DEVICES, INC.,
Defendant-Appellee.

Decided Dec. 28, 1993.

Before: REINHARDT and LEAVY, Circuit Judges, and MERHIGE,* District Judge.

REINHARDT, Circuit Judge:

Intel Corporation (Intel) appeals the district court's order staying its copyright action against Advanced Micro Devices, Inc. (AMD). The stay was granted pending final state court appellate review of an arbitration award of license that, if upheld, would provide AMD with a defense to Intel's claims of copyright infringement. Because we do not find that exceptional circumstances exist justifying a "wise judicial administration" stay under *Colorado River Water Conservation District v. United States*, 424 U.S. 800, 96 S.Ct. 1236, 47 L.Ed.2d 483 (1976), and because the stay cannot be upheld on the alternative grounds suggested by AMD, we reverse the stay order and remand to district court for further proceedings.

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*The Honorable Robert R. Merhige, Jr., Senior United States District Judge for the Eastern District of Virginia, sitting by designation.

BACKGROUND

Intel and AMD are semi-conductor companies which design, produce and market microprocessors. A common practice within the microprocessor industry is the "second sourcing" arrangement, by which the creator of a newly developed product will license rights to manufacture the product to another company, receiving a royalty in return. Although both companies then market the same product in competition with one another, the existence of a second source for the new product reassures customers and, in theory, leads to a greater market share for both companies.

In 1981, Intel approached AMD regarding a second sourcing arrangement for the Intel 8086 microprocessor. After protracted negotiations, the parties signed a contract in February 1982, later amended in 1984, which stated the terms by which each party could earn the rights to manufacture the other's product. It was, in effect, a reciprocal second sourcing agreement: if one party wanted to market parts the other party had developed, it could offer parts that it had developed in exchange. The exchanged parts were rated using a system of complexity factor (CF) points, which created a form of currency for the transactions.

Intel gave AMD immediate rights to second source its 8086 microprocessor, but AMD's right to acquire later Intel products was dependent upon AMD acquiring the CF points necessary to "purchase" them. However, by the time that Intel's 80386 microprocessor (the 386) entered the market, Intel had largely failed to accept AMD products, leaving AMD without the CF points needed to acquire rights to the 386.

By 1986, AMD realized that Intel was not going to permit it to second source the 386, which had become the industry standard in microprocessors. Pursuant to an arbitration provision in the contract, AMD filed a petition in state court to compel arbitration, alleging breach of

contract. The petition was granted in August 1987 and arbitration hearings before a retired judge began.[1]

AMD's position in the arbitration was that Intel had deliberately frustrated the contract. AMD asserted that Intel had wrongly prevented AMD from getting rights to the 386 by refusing to accept AMD parts in exchange. According to AMD, the contract had created a partnership or joint venture between AMD and Intel that obligated Intel to license AMD products. Alternatively, AMD claimed that Intel had wrongly reneged on its bargain to take certain AMD parts. Either way, AMD claimed to be entitled to the Intel 386.

The arbitrator disagreed with AMD's interpretation of the contract. He found that AMD had no rights to the 386 microprocessor under the contract, because the contract "simply created a modus vivendi for the exchange of product between the two companies," creating no obligation for either company to take the other's products. He nonetheless agreed with AMD that Intel had breached the contract. Even though Intel had the right not to accept AMD products, the covenant of good faith and fair dealing required that this decision be taken openly. According to the arbitrator, Intel had breached this covenant by trying to deceive AMD into believing that product exchanges would continue, with the motive of "keeping AMD in the Intel 'camp,' of keeping AMD away from some sort of partnership with another company—say NEC or Fujitsu—where AMD's talents might be used in effective competition against Intel."

By late 1990, AMD had begun marketing a 386 microprocessor called the Am386. In October 1991, just prior

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[1] The parties stipulated in their Order of Reference to Arbitration that the arbitrator would could award remedies "as he may in his discretion determine to be fair and reasonable but not in excess of his jurisdiction." Similarly, the Informal Rules of Arbitration adopted by the parties state that the arbitrator has authority to "grant any relief which the Arbitrator deems just and equitable and within the scope of agreement of the parties, including, but not limited to, specific performance of a contract."

to the close of the remedies phase of the arbitration, Intel commenced this federal court action against AMD for copyright infringement. Intel charged AMD with reverse-engineering Intel's 386 microprocessors and copying the computer programs contained in them. As a remedy for this alleged copyright infringement, Intel asked for an injunction prohibiting AMD from further use of the disputed computer programs, the impounding of existing copies of the programs, and damages.

In February 1992, after almost five years of hearings, the arbitrator handed down his award. In addition to awarding AMD damages under the contract, he granted AMD the equitable remedy of "a permanent, royalty-free, non-exclusive, non-transferable, worldwide right (but not the right to assign, license or sublicense such right to any other party) under any and all Intel copyrights, patents, trade secrets and maskwork rights contained in the current versions of AMD's reverse engineered 80386 family of microprocessors." He explained that his purpose in awarding this right was:

> to provide a complete and dispositive defense to AMD as to the Intel claims against AMD regarding the technology and intellectual property used in AMD's current versions of the 80386 in such lawsuits as *Intel Corp. v. Advanced Micro Devices, Inc.* (A 91 CA 800) in the United States District Court for the Norther[n] District of California, and *Intel Corp. v. Advanced Micro Devices, Inc.* (C 90 20571 WAI) in the United States District Court for the Northern District of California, and to preclude and defeat other potential Intel intellectual property infringement claims with respect to the technology used in AMD's afore described past and current versions, and future revisions and modifications, of the 80386.

The arbitrator elaborated further on the reasons supporting what he conceded was an unconventional approach to relief in his Memorandum of Decisions re Issues in Award. Complaining of the parties' abuse of the court

system, he said that the award was meant to "abort the incessant [legal] warfare which has gone on between these two companies for the past five years."[2]

In March 1992, AMD filed a petition in the Superior Court of California to confirm that arbitration award, and Intel filed a petition to correct the award. After a hearing, the state court confirmed the arbitration award in its entirety. AMD then filed a motion in the present federal action for summary judgment, or, in the alternative, a stay of proceedings. The magistrate judge granted AMD's motion for a stay of district court proceedings, relying on the "wise judicial administration" doctrine first enunciated in *Colorado River Conservation Dist. v. United States*, 424 U.S. 800, 96 S.Ct. 1236, 47 L.Ed.2d 483 (1976).

Contending that the stay was improperly granted, Intel now appeals to this court.[3] The stay order is appealable as a final order. *Moses H. Cone Memorial Hospital v. Mercury Const. Corp.*, 460 U.S. 1, 13, 103 S.Ct. 927, 936, 74 L.Ed.2d 765 (1983); *Travelers Indem. Co. v. Madonna*, 914 F.2d 1364, 1367 (9th Cir. 1990).

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[2] The arbitrator's preliminary draft award took an even more direct approach to terminating the parties' litigation. It simply stated that "Intel is enjoined and prohibited from prosecuting further [its federal court] cases. . . and from asserting any intellectual property rights in the AMD 80386 family of microprocessors." This draft language was omitted in favor of the license contained in final version of the award after AMD advised the arbitrator of two Supreme Court cases establishing that he was without authority to enjoin Intel from prosecuting its federal claims.

[3] Subsequent to the stay of federal district court proceedings, the Court of Appeal of California reversed the Superior Court's confirmation of the arbitration award as to AMD's license to the 386 microprocessor. *Advanced Micro Devices, Inc. v. Intel Corp.*, 16 Cal.App.4th 346, 20 Cal.Rptr.2d 73 (6th Dist.1993). On September 2, 1993, the California Supreme Court granted AMD's petition for review of the Court of Appeal's judgment. See ___ Cal.3d ___, 23 Cal.Rptr.2d 100, 858 P.2d 567 (Cal.1993).

DISCUSSION

I. The Merits.

Intel's action for copyright infringement is based on 17 U.S.C. § 106, which states that the owner of a copyright "has the exclusive rights to do and to authorize any of the following: (1) to reproduce the copyrighted work. . . (2) to prepare derivative works based upon the copyrighted work." Intel meets AMD's affirmative defense of license by asserting that the arbitrator violated § 106 by simply awarding rights to the 386 microprocessor to AMD as an equitable remedy.

II. Standard of Review.

A district court's stay order is reviewed for abuse of discretion. *Nakash v. Marciano*, 882 F.2d 1411, 1413 (9th Cir. 1989). However, courts have repeatedly emphasized that this abuse of discretion standard is stricter than the flexible abuse of discretion standard used in other areas of law. When a stay for reasons of "wise judicial administration" is contemplated, "discretion must be exercised within the narrow and specific limits prescribed by the particular abstention doctrine involved . . . . [T]here is little or no discretion to abstain in a case which does not meet traditional abstention requirements." *Mobil Oil Corp. v. City of Long Beach*, 772 F.2d 534, 540 (9th Cir. 1985) (quoting *C-Y Development Co. v. City of Redlands*, 703 F.2d 375, 377 (9th Cir. 1983).

III. The Colorado River Doctrine.

Considerations of "wise judicial administration, giving regard to conversation of judicial resources and comprehensive disposition of litigation" may counsel granting a stay when there are concurrent state proceedings involving the same matter as in the federal district court. *Colorado River*, 424 U.S. at 817, 96 S.Ct. at 1246. The Supreme Court has stressed, however, that the *Colorado River* exception to "the virtually unflagging obligation of the federal courts to exercise the jurisdiction given them" is a narrow one. *Id.*, *see also Moses H. Cone*, 460 U.S. at 17,

103 S.Ct. at 937. Only exceptional circumstances justify such a stay, and whether these circumstances exist is determined by weighing a complex of factors. *Moses H. Cone*, 460 U.S. at 23-26, 103 S.Ct. at 941-42.

The *Colorado River* Court enumerated several relevant factors for deciding whether a stay is appropriate, which later cases have expanded upon. *See, e.g., 40235 Washington Street Corp. v. Lusardi*, 976 F.2d 587, 588 (9th Cir. 1992). Although the district court considered a number of these factors, it ignored a significant countervailing consideration that we find dispositive. Under the rules governing the *Colorado River* doctrine, the existence of a substantial doubt as to whether the state proceedings will resolve the federal action precludes the granting of a stay. As the Supreme Court stated in *Moses H. Cone*,

> When a district court decides to dismiss or stay under *Colorado River*, it presumably concludes that the parallel state-court litigation will be an adequate vehicle for the complete and prompt resolution of the issues between the parties. *If there is any substantial doubt as to this*, it would be a serious abuse of discretion to grant the stay or dismissal at all. . . . Thus, the decision to invoke *Colorado River* necessarily contemplates that the federal court will have nothing further to do in resolving any substantive part of the case, whether it stays or dismisses.

460 U.S. at 28, 103 S.Ct. at 943 (emphasis added). The Court reiterated its concern for the prompt and final resolution of all disputed issues in its most recent discussion of the *Colorado River* doctrine, declaring that a district court may enter a *Colorado River* stay order only if it has "full confidence" that the parallel state proceeding will end the litigation. *Gulfstream Aerospace Corp. v. Mayacamas Corp.*, 485 U.S. 271, 277, 108 S.Ct. 1133, 1137, 99 L.Ed.2d 296 (1988).[4]

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[4] *See also Arizona v. San Carlos Apache Tribe of Arizona*, 463 U.S. 545, 560, 103 S.Ct. 3201, 3210, 77 L.Ed.2d 837 (1983) (stay improper

The concurrent state court proceedings will resolve all the issues in this action *only* if the arbitration award is confirmed and if the state court's resolution of the copyright challenge to the award is deemed to have collateral estoppel effect in federal court.[5] In contrast, if the state court overturns the arbitration award, then the case will return to federal court for the adjudication of the underlying copyright claims (having been delayed for the entire period of the stay).[6] A consideration of these contingencies raises the substantial doubt sufficient to preclude a *Colorado River* stay.[7]

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where state court cannot resolve federal court claims); *Attwood v. Mendocino Coast Dist. Hospital*, 886 F.2d 241, 243 (9th Cir. 1989) (by conceding that the *Colorado River* doctrine is applicable, plaintiff agreed that "beyond 'any substantial doubt,' the parallel state court proceedings will provide complete and prompt resolution of the issues in her case"); *Lumen Const., Inc. v. Brant Const. Co., Inc.*, 780 F.2d 691, 695 (7th Cir. 1985) (granting *Colorado River* stay because, among other things, "one can predict with some confidence that the state court litigation will probably eliminate the need for any further proceedings in federal court"); *cf. United States v. Rubenstein*, 971 F.2d 288, 294 (9th Cir. 1992) (dicta to the effect that possibility of later federal proceedings does not preclude *Colorado River* stay, when later proceedings merely represent remedial compliance with state court determination of substantive issues). Further, the requirements of "parallel" state court proceedings implies that those proceedings are sufficiently similar to the federal proceedings to provide relief for all of the parties' claims. *See, e.g., Nakash*, 882 F.2d at 1416.

[5] The preclusive effect of final state court confirmation of the arbitrator's decision was extensively debated by the parties. Since we find the possibility that the award will be reversed through the state appellate review process sufficient to raise a substantial doubt as to whether the state proceedings will end the litigation, we find it unnecessary to resolve this question.

[6] At oral argument, counsel for AMD confirmed that, if the arbitration award is overturned, AMD has further defenses to Intel's copyright claim that it intends to litigate.

[7] Since we find that there exists a substantial doubt as to whether the state court proceedings will resolve all of the disputed issues in this case, it is unnecessary for us to weigh the other factors included in the *Colorado River* analysis. *Cf. Lusardi*, 976 F.2d at 589 (declining to weigh other factors when one is sufficient to bar stay). We note,

IV. The Federal Arbitration Act.

AMD also contends that the Federal Arbitration Act (FAA) mandates a stay of this case pending completion of state appellate review of the arbitration award.[8] Section 3 of the FAA, 9 U.S.C. § 3, provides:

> If any suit or proceeding be brought in any of the courts of the United States upon any issue referable to arbitration under an agreement in writing for such arbitration, the court in which such suit is pending, upon being satisfied that the issue involved in such suit or proceeding is referable to arbitration under such an agreement shall on application of one of the parties stay the trial of the action until such arbitration has been had.

The Supreme Court has consistently reaffirmed the duty of the federal courts to support arbitration agreements in applying the FAA. *See, e.g., Moses H. Cone*, 460 U.S. at 24, 103 S.Ct. at 941; *Mitsubishi Motors Corp. v. Soler*

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however, that the federal courts are particularly reluctant to relinquish jurisdiction when a case involves federal law issues. As the Supreme Court stated in *Moses H. Cone*, "the presence of federal law issues must always be a major consideration weighing against surrender." 460 U.S. at 26, 103 S.Ct. at 942.

A stay would be especially difficult to justify in a case such as this one, where the copyright claims are subject to exclusive federal jurisdiction. *See* 28 U.S.C. § 1338(a). The Supreme Court has yet to address the question of the applicability of the *Colorado River* doctrine to cases involving claims subject to exclusive federal jurisdiction (the issue was raised, but not decided, in *Will v. Calvert Insurance Co.*, 437 U.S. 655, 98 S.Ct. 2552, 57 L.Ed.2d 504 (1978)), but the circuit courts, and the Ninth Circuit in particular, have uniformly held that a district court may not grant a stay in this context. *See, e.g., Minucci v. Agrama*, 868 F.2d 1113, 1115 (9th Cir. 1989); *Silberkleit v. Kantrowitz*, 713 F.2d 433, 435 (9th Cir. 1983); *Medema v. Medema Builder*, 854 F.2d 210, 214 (7th Cir. 1988). The issue is made more complicated here, however, by the fact that the state court proceedings do not involve an ordinary civil action, but rather the confirmation of an arbitration award.

[8] Under California law, a confirmed arbitration award becomes enforceable only after all appeals are exhausted. *Thriftimart, Inc. v. Superior Court*, 202 Cal.App.2d 421, 424-25, 21 Cal.Rptr. 19 (1962).

Chrysler-Plymouth, Inc., 473 U.S. 614, 626, 105 S.Ct. 3346, 3353, 87 L.Ed.2d 444 (1985). The Court recently summarized *Moses H. Cone* and *Mitsubishi* as "establish[ing] that, in applying general state-law principles of contract interpretation to the interpretation of an arbitration agreement within the scope of the Act, due regard must be given to the federal policy favoring arbitration, and ambiguities as to the scope of the arbitration clause itself [must be] resolved in favor of arbitration." *Volt Info. Sciences v. Leland Stanford Jr. U.*, 489 U.S. 468, 475-76, 109 S.Ct. 1248, 1254, 103 L.Ed.2d 488 (1989) (citation omitted).

In the present case, the denial of a stay of federal proceedings in no way undermines the arbitration process. The arbitration clause in the Intel-AMD contract has already been given effect: the arbitration has been "had" within the meaning of the FAA. Whether it is a state court or a federal court that examines the results of the arbitration, the review remains deferential. Neither court impairs the value of arbitration by reassessing *de novo* the merits of the contract dispute; instead, the focus of review is narrow, primarily concerned with ensuring that the arbitrator has not exceeded the bounds of his authority. *See, e.g., Pack Concrete, Inc. v. Cunningham*, 866 F.2d 283, 285 (9th Cir. 1989); *Southern Cal. Rapid Transit Dist. v. United Transportation Union*, 5 Cal. App. 4th 416, 422-23, 6 Cal.Rptr.2d 804 (1992). Here, notwithstanding the fact that the arbitration award is asserted as a defense to copyright claims, the same standard of review applies. We express no view, however, as to the award's collateral or other effect upon those claims in the event that it is determined to be valid.

AMD's claim that federal court proceedings should be stayed is thus not based on deference to arbitration, but instead on a purported deference to state court review of arbitration decisions. The FAA, however, expresses no preference for state court review of arbitration awards. Moreover, there are two significant factors supporting federal court review in this case: copyright claims are within

the exclusive jurisdiction of the federal courts, and the federal court action was initiated prior to the state court proceedings.

V. Full Faith and Credit.

AMD contends that the federal full faith and credit statute, 28 U.S.C. § 1738, provides an alternative basis for affirming the district court stay.[9] Section 1738 provides that state judicial proceedings "shall have the same full faith and credit in every court within the United States . . . as they have by law or usage in the courts of such State . . . from which they are taken." The purpose of this statute is to promote comity and federalism by allowing the states to determine the preclusive effect of their courts' judgments. *Marrese v. American Academy of Orthopaedic Surgeons*, 470 U.S. 373, 380, 105 S.Ct. 1327, 1332, 84 L.Ed.2d 274 (1985). Accordingly, the statute requires that federal courts look to state law to determine the preclusive effect of an earlier state judgment. *Id.*

AMD relies on a 1933 California appellate case, *Robinson v. El Centro Grain Co.*, 133 Cal.App. 567, 24 P.2d 554 (1933), in asserting that California preclusion rules require a stay of the present proceedings. *Robinson* provides no support for this assertion, however; in fact, the *Robinson* court explicitly acknowledges that the judgment of a state trial court from which an appeal is pending has no res judicata effect on the issues in another case. *Id.* at 573, 24 P.2d 554. As the Supreme Court has indicated, the red judicata effect, or, more narrowly, the claim preclusion effect, of a prior judgment is precisely what preclusion rules determine. *Marrese*, 470 U.S. at 380, 105 S.Ct. at 1332 (using terms "preclusive effect" and "rules of res judicata" interchangeably). Instead of res judicata, *Robinson's* holding that the trial court must stay proceedings if a parallel California judgment is on appeal is ex-

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[9] Although AMD did not raise this issue below, the district court's order may be affirmed by this court on any ground supported by the record. *See Jackson v. Southern California Gas Co.*, 881 F.2d 638, 643 (9th Cir. 1989).

pressed as a matter of procedure, based on the desire to avoid inconsistent judgments by the state Supreme Court. *Robinson*, 133 Cal.App. at 573-74, 24 P.2d 554.

VI. Conclusion.

While the district court might perhaps understandably be daunted by the prospect of evaluating the results of nearly five years of arbitration, the presence of state law issues—especially issues relating to breach of contract—is not generally a valid justification for granting a stay under the *Colorado River* doctrine. *Moses H. Cone*, 460 U.S. at 26, 103 S.Ct. at 942; *Madonna*, 914 F.2d at 1370. Moreover, the critical questions regarding enforceability appear to be primarily legal; they concern the jurisdiction of the arbitrator and the appropriateness of the remedy. At any rate, the existence of state law issues does not outweigh the court's obligation to ensure the "complete and prompt" resolution of all of the parties' claims, state and federal. By ignoring this obligation, the district court abused its discretion in granting a stay of proceedings under the "wise judicial administration" doctrine of *Colorado River*. Nor do the FAA or the full faith and credit statute justify a stay of proceedings. Accordingly, the district court's stay order is reversed and the case remanded for further proceedings consistent with this opinion.

Reversed and remanded.

APPENDIX B

APPENDIX B(i)

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN JOSE DIVISION

Case No. C-92-20039 PVT

INTEL CORP.,

Plaintiff,

v.

ADVANCED MICRO DEVICES, INC.,

Defendant.

ORDER FOLLOWING DEFENDANT'S MOTION TO STAY AND PLAINTIFF'S MOTION FOR PARTIAL SUMMARY JUDGMENT

This is a copyright infringement case in which two motions are pending before the court: defendant's motion to stay and plaintiff's motion for partial summary judgment.[1], [2] Together, the motions present a single question: what should be the effect, if any, upon this proceeding of a state court judgment arising from an arbitration?

I. FACTUAL HISTORY

Intel Corp. (Intel) and Advanced Micro Devices, Inc. (AMD) are semi-conductor companies engaged in the design, production and marketing of integrated circuits. In 1982, Intel and AMD entered into a technology sharing

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[1] Initially, this case was assigned to Judge Ingram, but pursuant to 28 U.S.C. §636(c), the parties consented to Magistrate Judge Trumbull hearing the case as the district court.

[2] During oral argument, AMD withdrew its summary judgment motion.

agreement which was amended in 1984. (Arbitrator's interlocutory decision re agreement on specifications of QPMD [hereinafter "interlocutory decision"], pp. 11-13). The agreement facilitated an exchange of product occurring when a party earned points by producing something the other wanted to acquire. (Interlocutory decision at pp. 11-13).

The contract was predicated on a "second sourcing" arrangement, a common practice in the industry. (Interlocutory decision at p. 8). In return for a royalty, the developing company licensed to the non-developing company the right to develop a product and sell it in competition with the other. (Interlocutory decision at p. 8). In addition to both companies saving money in research and development, customers have a margin of security because there are two entities marketing a product with competitive prices. (Interlocutory decision at p. 8).

Under this contract, when one company second sourced a part, the developing company earned complexity factor points ("CF" points) determined by a formula set forth in the contract. (Interlocutory decision at pp. 11-13). The points allowed the developing company to acquire product from the other company. (Interlocutory decision at pp. 11-13). However, a company could also protect its technology by refusing to transfer product so that insufficient CF points were generated to permit acquisition of the other party's product. (Interlocutory decision, p. 13).

Under the contract, Intel gave AMD the right to obtain and immediately second source the 8086 (which belongs to a family of microprocessors, 80186, 80286, etc.) and other products while AMD's right to acquire additional product was dependent on AMD earning the points necessary to acquire them. (Interlocutory decision at pp. 11-13). The 80386 ("the 386") and its attendant package of intellectual software, a highly desirable product, became the object, along with other products, of AMD's effort to gain points. (Interlocutory decision at p. 13).

In 1986, AMD realized that Intel would not permit it to second source the 386 which gave rise to a contractual dispute. (Arbitrator's memorandum of decisions re issues in award [hereinafter "memorandum re award"]. p. 3; and interlocutory decision at p. 13). Pursuant to a contract provision, AMD filed an action in the California Superior Court in Santa Clara County to compel mandatory arbitration. (Contract, p. 15, paragraph 11). By order dated August 12, 1987, the court compelled the parties to arbitrate.

Based on an agreed procedure, the parties selected an arbitrator, retired Judge J. Barton Phelps. The arbitration continued over a period of five years. The arbitrator issued an interlocutory decision (2/21/89), a decision and award with respect to liability (10/11/90), an award (2/24/92), and a memorandum of decisions re issues in award (2/24/92).

In the arbitration, AMD claimed that Intel purposely frustrated the contract by failing to take AMD parts thereby preventing AMD from getting enough CF points to second source Intel parts, including and especially, the 386. (Interlocutory decision at p. 13). AMD asked the arbitrator to find that the contract created a partnership or joint venture that obligated Intel to license AMD products that would allow it to earn the 386; or, alternatively, to find that Intel had wrongly kept AMD occupied developing specific product which Intel never meant to procure. (Memorandum re award at pp. 4-5).

The arbitrator found that AMD did not have any contractual right to the 80386 because the contract created only a "modus vivendi for the exchange of product between the two companies." (Memorandum re award at p. 4). AMD had not produced product with a point value sufficient to earn the 386. (Memorandum re award, p. 4).

However, the arbitrator found that Intel breached its covenants of good faith and fair dealing by purposely frustrating the contract's objectives. (Interlocutory decision at pp. 11-13, 25; arbitrator's decision and award with respect to liability p. 8; and award of arbitrator [hereinafter

"award"], p. 1). The arbitrator stated that Intel made an internal decision to refuse AMD parts which would have allowed AMD the necessary points to second source Intel's technology, including the 386. As an equitable remedy, the arbitrator awarded AMD a license to Intel's 386 microprocessor. (Award, p. 2:19 - 4:9).[3]

The Superior Court confirmed the arbitrator's decision which is now on appeal to the California Court of Appeals. (Court minute order/decision of Judge Read Ambler; 5/22/92 and notice of appeal to the Court of Appeal of the State of California for the Sixth Appellate District, No. 626879.) The effect of this license is the crux of the two motions before the federal district court.

II. PROCEDURAL HISTORY

Intel brought this federal court action against AMD for alleged infringement of Intel's 386 microprocessor. AMD defended that it has not infringed because the arbitrator in the state case awarded AMD "a permanent, royalty-free, non-exclusive, non-transferable, worldwide right (but not the right to assign, license or sublicense such right to any other party) under any and all Intel copyrights, patents, trade secrets and maskwork rights contained in the current versions of AMD's reverse engineered 80386 family of microprocessors." (Award of 2/24/92, p. 2:19-24).

The arbitrator intended "to provide a complete and dispositive defense to AMD as to the Intel claims against AMD regarding the technology and intellectual property used in AMD's current version of the 80386 . . . and to preclude and defeat other potential Intel property infringement claims with respect to the technology used in AMD's aforementioned described past and current versions, and future revisions and modifications, of the 80386. (Award, p. 3:10-22). However, the arbitrator expressly declined to render an opinion as to whether AMD was infringing any

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[3] The arbitrator's award also gave AMD (a) monetary damages on two contract claims; (b) license rights to a math co-processor, and (c) nominal damages on several other claims. These are not contested.

of Intel's intellectual property rights. (Award, p. 3:26 - 4:5).

AMD asked the court to stay this case pending confirmation of the arbitrator's decision. AMD asserted that the 386 license, if confirmed as an award through the state court process, constitutes a defense to the infringement allegations. AMD also asserted that the state court's final decision concerning the granting of the license has a preclusive effect on the federal court litigation.

Intel objected to the stay on the basis that the outcome of the state court process is irrelevant because the arbitrator exceed the scope of his authority and his jurisdiction by awarding a copyright license, an exclusive federal matter. *See* 17 U.S.C. §§ 106 and 201(e); 28 U.S.C. § 1338(a); U.S. Const. art. I, § 8, cl. 8 (patent & copyright clause); and U.S. Const. art. VI, cl. 2 (supremacy clause).[4]

Similarly, Intel requested the court grant it partial summary judgment on the basis that the arbitrator's award provided AMD a copyright license and infringement im-

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[4] In part, 28 U.S.C. § 106, exclusive rights in copyrighted works, instructs:

> [T]he owner of a copyright under this title has the exclusive rights to do and to authorize any of the following:
>
> (1) to reproduce the copyrighted work in copies, or phonorecords;
>
> (2) to prepare derivative works based upon the copyrighted work;
>
> (3) to distribute copies or phonorecords of the copyrighted works to the public by sale or other transfer of ownership, or by rental, lease, or lending . . . .

The ownership of copyright statute, 17 U.S.C. § 201(e), provides:

> When an individual author's ownership of a copyright, or of any of the exclusive rights under a copyright, has not previously been transferred voluntarily by that individual author, no action by any governmental body or other official or organization purporting to seize, expropriate, transfer, or exercise rights of ownership with respect to the copyright, or any of the exclusive rights under a copyright, shall be given effect under this title except as provided under Title 11.

munity which could have no preclusive effect in this case. AMD opposed the summary judgment arguing that the arbitrator decided only contract issues pursuant to the arbitration clause and did not decide any federal copyright claims.

III. ANALYSIS

A. *Applicability of claim and/or issue preclusion*

The first issue is whether the parties had the right to arbitrate a contract which might involve an exclusive federal matter. Intel conceded during oral argument that if the parties agreed either in the contract or in the stipulated procedures that the arbitrator had the power to grant equitable remedies that might include a license to the 386, then the granting of the license was not in violation of federal law. The court accepts this as accurate. *See C.D. Anderson & Co., v. Lemos*, 832 F. 2d 1097, 1100 (9th Cir. 1987) (stating that in a case where the underlying claim involved a federal claim, an arbitration decision may have *res judicata* or collateral estoppel effect).

Unfortunately, the contract in this case is not explicit. Intel said it never authorized, or expected, a license to be granted to AMD. AMD countered that the arbitrator's authority is implicit in the wording of the agreement to arbitrate and to the procedures. The arbitrator, as evidenced by his decision and memorandum, believed that he was acting within the scope of his authority as conveyed upon him by the parties. Whether the arbitrator exceeded his authority or jurisdiction can only be determined by interpreting the underlying contract, the arbitrator's instructions and the procedures agreed upon by the parties. *SCRTD v. United Transp. Union*, 6 Cal. Rptr. 2d 804, 807 (Cal. App. 1992).

The question is who should review the contract to determine what the parties agreed to and whether the arbitrator stayed within the bounds of the agreement: the federal court or the state court? Intel argued that this must be resolved in federal court regardless of ongoing

state proceedings on the very same issues. Under state law, the state court system reviews the arbitrator's decision.[5] Although this court has some reservations about the arbitrator's actions, as this matter is now squarely and properly before the state court, it should remain there. *See also Dolch v. United Ca. Bank*, 702 F. 2d 178, 180 (9th Cir 1983) (wherein the court stated that the federal courts have routinely dismissed complaints in copyright cases that actually present questions of contract law).

In order to assess the propriety of a stay pending resolution of the state court process, this court is obligated to determine whether a state court judgment will have a preclusive effect in this subsequent federal lawsuit. *Marrese v. American Academy of Orthopaedic Surgeons*, 470 U.S. 373, 380, 105 S. Ct. 1327, 1331, 84 L. Ed. 2d 274 (1985), *reh'g den.* 471 U.S. 1062 (1985), *citing* 28 U.S.C. § 1738 (full faith and credit statute). There are two types of preclusion: *res judicata* or claim preclusion and collateral estoppel or issue preclusion. 470 U.S. at 375, 105 S. Ct. at 1329 n. 1. In determining when a state court judgment has *res judicata* or collateral estoppel effect in a subsequent federal action, the applicable state law controls. 470 U.S. 373, 380, 105 S. Ct. at 1329 n. 1.

"[U]nder California preclusion law, in order for *res judicata* to apply to claims not raised in previous proceedings, the court rendering the prior judgment must have has jurisdiction to hear such claims." *Pension Trust Fund v. Triple A Mach. Shop*, 942 F. 2d 1457, 1460 (9th Cir. 1991), *citing Eichman v. Fotomat Corp.*, 759 F. 2d 1434, 1437 (9th Cir. 1985). As conceded by AMD, *res judicata* does not apply because the copyright claim at issue in the federal suit was not litigated in the arbitration.

However, "in certain instances, . . . collateral estoppel effect [may] be given to specific findings of fact made in a prior state court adjudication, notwithstanding that the

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[5] The arbitration was conducted pursuant to CAL. CIV. PROC. CODE § 1280, et seq. The Federal Arbitration Act, 9 U.S.C. § 3, was not involved.

state court did not have prior jurisdictional competency." *Pension Trust Fund*, 942 F. 2d at 1461. Under California law, the factors for assessing whether collateral estoppel applies are:

> (1) whether the issue decided in the prior adjudication is identical to the issue presented in the second action;
>
> (2) whether there was a final judgment on the merits; and
>
> (3) whether the party against whom the estoppel is asserted was a party or in privity with a party to the prior adjudication.

Id. at 1462.

The issue of whether AMD has the license rights to the 386 was specifically decided by the arbitrator and was confirmed by the California Superior Court. The issues, being addressed over a protracted five year period, were decided on the merits, and involved the same parties. Therefore, collateral estoppel applies.

B. *Propriety of deference pursuant to Colorado River*

Defendant based its request to stay on *Colorado River Water Conservation Dist. v. United States*, 424 U.S. 800, 96 S. Ct. 1236 (1976) *reh'g den.*, 426 U.S. 912 (1976), wherein the court held that the stay of a federal court action during the pendency of a parallel state court proceeding was permissible under a "wise judicial administration" exception based on analyzing various factors.[6] However, *Colorado River* involved a concurrent jurisdiction claim while the instant case does not.

Intel disputed the applicability of *Colorado* based on the Ninth Circuit's holding in *Minucci v. Agrama*, 868 F. 2d 1113, 1115 (9th Cir. 1989), wherein in a copyright action,

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[6] Although some courts refer to this as abstention, the Supreme Court distinguishes between deference under *Colorado River* and traditional abstention doctrine. Medema v, Medema Builders, Inc. 854 F. 2d 210, 212 n. 1 (7th Cir. 1988).

the court reversed a stay pending resolution of state claims which had been severed and remanded to state court. The court stated that "[t]he district court has no discretion to stay proceedings as to claims within *exclusive* federal jurisdiction under the wise judicial administration exception." *Id.* at 1115 (citations omitted). *See also Arizona v. San Carlo Apache Tribe of Arizona*, 463 U.S. 545, 559, 103 S. Ct. 3201, 3210, 77 L. Ed. 2d 837 (1983).

With deference and caution, this court thinks *Minucci* is distinguishable. In *Minucci*, although there is no description of the state claims, the facts state that the remanded pendant state claims commenced originally in federal court in the same case. Here, no state claims are pending, only the completion of an arbitration confirmation which may have preclusive effect on the federal claim before the court.

At least one case suggests that this narrow ground may provide justification for granting a stay, In *Medema v. Medema Builder, Inc.*, 854 F. 2d 210, 214 n. 2 (7th Cir. 1988), a federal securities fraud suit, the court reversed a stay under *Colorado River* as inappropriate stating:

> [T]his situation differs substantially from the case in which factual findings are made by a state court prior to institution of federal proceedings. Here defendants ask us to hold off federal proceedings so that *future* state court factual finding will have preclusive effect.

Id. at 214 n. 2.

We are not awaiting a factual determination by the state court; that has already been done. The state court process is nearly complete. To fail to accord the state court deference undermines the arbitration and state judicial review process. Therefore, based on the unusual case facts and the narrow ground distinguishing this case from minucci, a *Colorado Rover* analysis of a stay is appropriate.

A district court may stay a federal suit based on a policy of wise judicial administration. *Colorado River Water Conservation Dist. v. United States*, 424 U.S. 800; 816, 96 S.

Ct. 1236 (1976). To determine whether wise judicial administration calls for a stay, "[t]he task is not to find some substantial reason for the *exercise* of federal jurisdiction by the district court; rather the task is to ascertain whether there exist 'exceptional circumstances', the 'clearest of justifications,'that can suffice under *Colorado River* to justify the *surrender* of jurisdiction." *Moses H. Cone Memorial Hospital v. Mercury Construction Corp.*, 460 U.S. 1, 25-26 (1982).

Whether "exceptional circumstances" exist is determined by application of various factors. *Moses*, 40 U.S. at 23-26.[7] "Consistent with its emphasis on a flexible approach, the Supreme Court has recognized its list is not exclusive and that other factors could be considered." *Id.* at 1616. "These factors are to be applied in a pragmatic and flexible way, as part of a balancing process rather than as a 'mechanical checklist.'" *Nakash v. Marciano*, 882 F. 2d 1411, 1415 (9th Cir. 1989) (citations omitted).

Initially, the court must decide whether the proceedings are parallel: "We should be particularly reluctant to find that the actions are not parallel when the federal action is but a 'spin-off' of more comprehensive state litigation." *Id.* at 1416-17. Also, the court should "consider. . . whether the second [suit] is an attempt to forum sho[p] or avoid adverse ruling by the state court." *Id.* at 1417 (citations omitted).

The other factors are: (1) whether either court has assumed jurisdiction over a *res*; (2) the relative convenience of the forums; (3) the desirability of avoiding piecemeal litigation; (4) the order in which the forums obtained jurisdiction; (5) whether state or federal law controls; and (6) whether the state law proceeding is adequate to protect the parties' rights. *Nakash*, 882 F. 2d at 1415; *Colorado*, 424 U.S. at 816-820; Moses, 460 U.S. at 2326.

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[7] The factors that may be considered vary with the circuits. The Seventh Circuit has the most expansive list with a total of ten factors. See *Medema v. Medema Builder, Inc.*, 854 F. 2d 210, 213 (7th Cir. 1988).

This court finds that the proceedings are parallel because the essence of the dispute between identical parties is the interpretation and construction of the rights of the two companies as concerns the 386. The federal suit is a permutation of the state case and may constitute an attempt to forum shop and to avoid the results of the arbitration.

The judicial system encourages alternative dispute resolution, even randomly assigning new cases in the Northern District of California to early neutral evaluation and to arbitration. Where the parties consent to arbitrate, it disservices the arbitration process to permit the unhappy party to attack collaterally the result when the issues are pending directly before the state court which is empowered and intended to review the decision.[8]

Other factors also weigh in favor of a stay. The state court was the first to obtain jurisdiction commencing over five years ago, Whether the arbitrator exceeded his authority can only be determined by reference to contract law. And, staying the federal court case serves to avoid piecemeal litigation which in this case has become a trilogy; an arbitration, a state court appeal, and a federal lawsuit. Further, if the action is not stayed, the possibility of the courts deciding the identical issue with conflicting results hangs in the air. Although the possibility of conflicting results is not determinative, it is a factor to be considered.

In sum, given the unique facts of this case and based on guidance from *Colorado River*, a stay of the federal case is appropriate as an exceptional circumstance under a policy of wise judicial administration.

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[8] Whether plaintiff's federal suit is in substance an attempt to seek federal court review of a state court judgment in violation of the *Rooker-Feldman* doctrine is not addressed here because the parties did not raise this issue or brief it. See *Texaco, Inc. v. Penzoil Co.*, 784 F, 2d 1133, 1137, 1141-45 (2d Cir. 1986); and *American Disposal Services, Inc. v. O'Brien*, 839 F. 2d 84, 87 (2nd Cir. 1988).

IV. CONCLUSION

IT IS HEREBY ORDERED that defendant's motion to stay is GRANTED. Defendant shall notify this court immediately upon conclusion of the state court proceedings. Further, plaintiff's motion for partial summary judgment is DENIED without prejudice.

IT IS SO ORDERED.

Dated: 10-29-92

/s/ Patricia V. Trumbull
PATRICIA V. TRUMBULL
United States Magistrate Judge

APPENDIX B(ii)

IN THE SUPERIOR COURT OF THE STATE OF CALIFORNIA IN AND FOR THE COUNTY OF SANTA CLARA

CASE NUMBER 626879

In the Matter of the Arbitration

ADVANCED MICRO DEVICES, INC.,
a Delaware Corporation

and

INTEL CORPORATION,
a California Corporation

COURT MINUTE ORDER

May 22, 1992

AMD's motion to confirm arbitration award and Intel's motion to correct same were heard and submitted on 5/15/92.

Scope of Review:

CCP § 1286 provides that the court should, when petitioned to do so, confirm an arbitration award unless it determines that the award should be corrected or vacated. One of the grounds for correcting an award is that the court has determined that the "arbitrators exceeded their powers but the award may be corrected without affecting the merits of the decision upon the controversy submitted." [CCP § 1286.6(b).]

" 'The powers of an arbitrator are limited and circumscribed by the agreement or stipulation of submission.' " [*Delta Lines, Inc. v. International Brotherhood of Teams-*

ters (1977) 66 Cal.App.3d 960, 966, quoting *Pac. Fire etc. Bureau v. Bookbinders' Union* (1952) 115 Cal.App.2d 111, 114.] When an arbitration award, therefore, purports to decide unsubmitted issues it must be vacated or corrected as being in excess of the arbitrator's powers. [*See id.*] An arbitrator, however, does not exceed his or her powers merely by assigning an erroneous reason for the decision. [*Hacienda Hotel v. Culinary Workers Union* (1985) 175 Cal.App.3d 1127, 1133.] "Even if the arbitrator's decision on the issue submitted was wrong . . . [if] it was within his power to make that decision [the] plaintiff is bound by it." [*Id.*] Generally, a decision exceeds the arbitrator's powers "only if it is so irrational that it amounts to an arbitrary remaking of the contract between the parties." [*Southern California Rapid Transit Dist. v. United Transportation Union* (1992) ___Cal. App. 4th ___ , 6 Cal.Rptr.2d 804, 807, citing *Posner v. Grunwald-Marx, Inc.* (1961) 56 Cal.2d 169, 184.]

Scope of Award:

Paragraph 11.0 of the Intel/AMD contract provided that disagreements would be resolved by informal binding arbitration. According to the Informal Rules of Arbitration adopted by the parties, the arbitrator's authority was to "grant any relief which the Arbitrator deems just and equitable and within the scope of the agreement of the parties, including, but not limited to, specific performance of a contract." [Informal Rules of Arbitration, 842 at 13.] The Order of Reference,[1] which specified the issues to be

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[1] When the Order of Reference was filed, the contract between the parties was still in effect and everyone involved anticipated that the arbitration would last a few weeks. The Order was accordingly phrased in terms of determining whether Intel was in "continuing breach" of the contract. But the arbitration took five years, during which time the Intel/AMD contract was terminated (4/88); there could, therefore, no longer be "continuing breaches" by Intel and the attendant remedies for AMD under the contract. For that reason, the arbitrator concluded that "the actual issues which have been litigated in these respects were never whether Intel should be ordered to *cease* its continuing breaches of the agreement, but rather whether Intel was *in fact in breach* of

arbitrated stated, that "[i]n respect to each issue submitted for arbitration by AMD or Intel the Arbitrator is authorized to fashion such remedy as he may in his discretion determine to be fair and reasonable but not in excess of his jurisdiction." [Order of Reference at 6:14-17.]

A fundamental part of the arbitrator's function was to interpret the contract. In "so far as the arbitrator's decision concerns construction of the contract, the courts have no business overruling him because their interpretation of the contract is different from his." [*United Steelworkers v. Enterprise Corp.* (1960) 363 U.S. 593, 599.] The arbitrator's determination, therefore, that the 80386 was the "cornerstone" of the contract is not reviewable.

In his memorandum of decision the arbitrator summed up his findings on the issue of whether Intel had breached the covenant of good faith and fair dealing. [Memorandum of Decision at 18-41.] He determined that Intel clearly acted in bad faith towards AMD. Intel made an internal decision in 1984 to stop taking AMD products so that AMD would earn no more CF points, but did not reveal that decision to AMD and even encouraged AMD in its belief that the contract was still viable and that AMD would eventually be able to obtain the 80386 and other Intel products. The Memorandum sets forth several pages of examples of Intel internal memoranda outlining Intel's strategy of stonewalling AMD.

The remedies provided to AMD for Intel's breach of the covenant of good faith and fair dealing are as follows:

1. The covenant case:

For breach of the covenant of good faith and fair dealing AMD is awarded damages in the

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the agreement in the respects mentioned . . . and what remedies AMD would have if it were." [Memorandum of Decision at 9 (emphasis in original).]

At this hearing, both parties conceded that the Order of Reference may be deemed to have been amended so as to determine whether Intel in fact was in breach of the agreement. It is so ordered.

nominal amount of $1 plus the relief afforded in paragraphs 5 and 6 hereof.

. . . .

5. AMD is hereby awarded a permanent, royalty-free, non-exclusive, non-transferable, worldwide right (but not the right to assign, license or sublicense such right to any other party) under any and all Intel copyrights, patents, trade secrets and mask work rights contained in the current versions of AMD's reverse-engineered 80386 family of microprocessors, to make, have made by a third party solely for AMD, use and sell the prior, current and future revisions and modifications of those products. . . . The intent of this paragraph is to provide a complete and dispositive defense to AMD as to the Intel claims against AMD regarding the technology and intellectual property used in AMD's current versions of the 80386 in such lawsuits as *Intel Corp. v. Advanced Micro Devices, Inc.* (A 91 CA 800) in the United States District Court for the Northern District of California, and *Intel Corp. v. Advanced Micro Devices, Inc.* (90 20571 WAI) in the United States District Court for the Northern District of California, and to preclude and defeat other potential Intel intellectual property infringement claims with respect to the technology used in AMD's afore described past and current versions, and future revisions and modifications, of the 80386. This license does not extend to any Intel intellectual property not already contained in the current versions of the AMD reverse-engineered family of 80386 microprocessors.

By this award, I do not intend to express or imply an opinion as to whether any Intel intellectual property rights are incorporated in any of the AMD 80386 family of microprocessors or whether any of the AMD 80386 family of micro-

processor infringes any Intel intellectual property rights, the intent of the award (as indicated above) being to grant AMD all rights necessary to allow AMD to produce and sell its AMD 80386 family of microprocessors, and revisions and modifications, thereof, free from harassment by Intel.

The rights awarded above shall be deemed effective continuously since the time AMD commenced reverse engineering the 80386 and shall extent indefinitely into the future.

6. In addition to the nominal damages awarded AMD for Intel's breaches as set forth in paragraphs 1 and 4 [for Intel's failure to negotiate reasonably over the specifications of the QPDM] hereof it is ordered that the rights conferred upon AMD under the 1982 AMD/Intel Agreement (which extended until 1995 the patent and copyright licenses originally granted by an agreement between the parties in 1976) are hereby extended two years from their present date of expiration only insofar as they relate to or concern the AMD 80386 and its revisions or modifications, if any. [Award at 1:20-23, 2:19-4:18.]

The arbitrator stated:

It is the purpose of these paragraphs to attempt to abort the incessant warfare which has gone on between these two companies for the past five years. Each of them has attempted to use the court system as a means of corporate strategy. By means of the orders contained in these paragraphs of the Award I intend that AMD be permitted to go forward in its production and sale of the AMD reverse engineered 80386 without harassment from Intel from any further law suit alleging that AMD has incorporated into that product any Intel intellectual property; and because of the manner in which Intel *to some extent* lulled AMD into *some* sense of well-being about

> the continuation of the relationship and *to some extent* contributed to AMD's delay in reverse engineering the 80386, I have decided that it is just and equitable that AMD be permitted to use the rights which it has under the 1982 AMD/Intel agreement (i.e., that part which extends until 1995 the patent and copyright licenses originally granted by an agreement between the parties in 1976) for an additional two years from the present date of the expiration of those rights. [Memo. of Decision at 85-86.]

The relief in paragraphs 5 and 6 property reflects a decision on a "submitted issue" because both paragraphs concern the 80386 and the arbitrator's interpretation of the contract was that the 80386 was an essential part of that contract.

The powers of an arbitrator are limited by the agreement or stipulation of submission. [*Delta Lines, Inc. v. International Brotherhood of Teamsters* (1977) 66 Cal.App.3d 860, 866.]

The original agreement between the parties stated that "in no event shall either party be liable for any loss of profits, fees of use, incidental, consequential or special damages except for wilful breach of paragraph 7.0 [confidentiality provision]." [Contract, ¶13.8 at 18.] This is the only provision in the contract, the Order of Reference, or the Informal Rules that purports to limit in a specific way the type of remedy that the arbitrator could permissibly fashion. The arbitrator determined that the above provision prohibiting money damages was void as against public policy because it lacked mutuality and unreasonably tied the arbitrator's hands in determining a remedy. [Memo. of Decision at 11-12.] The determination that the monetary damages provision is void is not challenged by Intel in this motion.

Once the prohibition on money damages is taken out of consideration, no other *specific* restrictions exist on what type of remedy the arbitrator could design. The only "re-

strictions" require that the arbitrator make a decision that he deems just and equitable and not in excess of his jurisdiction. These requirements have been met.[2]

The cases cited by Intel in support of its contention that the arbitrator awarded remedies outside of the contract can be distinguished from the cases at bar because they contained more specific limitations on the arbitrator's choice of remedies.

Federal Preemption:

The federal district courts have "original jurisdiction of any civil action arising under any Act of Congress relating to parents, plant variety protection, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states . . . ." [28 U.S.C. § 1338(a).] An action does not "arise under" the federal copyright laws, however, merely because its subject matter happens to involve a copyright. Rather, an action arises under the federal copyright laws

> "if and only if the complaint is for a remedy expressly granted by the Act. . . . or asserts a claim requiring construction of the Act. . . . or, at the very least and perhaps more doubtfully, presents a case where a distinctive policy of the Act requires that federal principles control the disposition of the claim." [*Effects Associates, Inc. v. Cohen* (9th Cir. 1987) 817 F.2d 72,73, quoting *T.B. Harms Co. v. Eliscu* (2d Cir. 1964) 339 F.2d 823, 828.]

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[2] The importance of the existence or nonexistence of restrictions on available remedies was recently spelled out in *Southern California Rapid Transit District v. United Transportation Union* (1992) ___Cal. App. 4th ___, 6 Cal.Rptr.2d 804. The court held that the "stipulation of submission only precluded the arbitrator from awarding monetary damages. Thus, it is assumed the arbitrator had the power to order any other remedy not inconsistent with the collective bargaining agreement. Because nothing in the agreement expressly prohibited the remedies imposed, their imposition by the arbitrator must be held proper." [*Id.* at 808 (citations omitted).]

"Generally, courts decide whether a case arises under the copyright laws by focusing on the nature of the *principal claim* asserted by the plaintiff. [*Topolos v.Caldeway* (9th Cir. 1983) 698 F.2d 991, 993 (emphasis added).] The inquiry has variously been directed at what is the "primary and controlling purpose," "principal issue," "fundamental controversy," "gist," or "essence" of the plaintiffs claim. [*Id.*]

The "gist" of Intel's present and future federal copyright infringement claims "arise under" federal copyright laws because copyright infringement if the "principal issue" to be resolved there. The important question to be decided at this point in the analysis, however, is not the nature of *Intel's* copyright infringement actions but, rather, what the nature of *this case* was.

This case is first and foremost about determining the respective rights of the parties pursuant to a contract entered into between them. Contract questions that depend on common law or equitable principles belong in state court. [*Dolch v. United California Bank* (9th Cir. 1983) 702 F.2d 178, 180.] The fact that the subject of the contract was licensing rights and therefore copyright and licensing issues were inevitably involved does not create federal jurisdiction. The court in *Dolch* determined that the question of whether an assignment of copyright renewal rights without consideration was a valid assignment was a state law question and there was no federal jurisdiction: "Absent a claim of infringement or a separate basis for jurisdiction, the plaintiffs' claims did not involve any questions of interpretation or policy arising under the copyright laws." [*Id.* at 180-81.]

No copyright infringement claims were made in *this action*. The arbitrator's responsibility was to interpret the contract, which itself involved licensing rights pursuant to a second-source agreement. According to the arbitrator, Intel breached the covenant of good faith and fair dealing implicit in the contract and, pursuant to his interpretation of the contract, the arbitrator then fashioned a remedy

that included awarding to AMD "a permanent, royalty-free, non-exclusive, non-transferable, worldwide right" to produce/use/sell its reverse-engineered 386.

That the remedy designed by the arbitrator included the award of a license to produce the reverse-engineered product, which product Intel has contended in other actions infringes upon its copyrights, does not mean that the arbitrator is impinging on federal jurisdiction. He was empowered to interpret the contract and "fashion a remedy" if any breaches of that contract were found: no copyright infringement claims were made in this action and the arbitrator did nothing more than determine state law contract issues.

Intel argues that the arbitrator determined that AMD was not entitled to the Intel 386. Once that determination was made, Intel argues, it was no longer a *state law* issue that was being resolved but, rather, was within exclusive federal jurisdiction with which the arbitrator had no right to interfere. The arbitrator determined, however, that the 386 was the "cornerstone" of the contract and he has the power to fashion a remedy that includes rights to that product, even if through Intel's breaches AMD was not able to acquire the product under the terms of the agreement.

Intel's second argument is that neither an arbitrator nor a superior court judge can give away copyright rights to which a party is not entitled as a matter of contract.

Intel relies on two US Code sections. First, the owner of a copyright "has the exclusive rights to do and to authorize any of the following: (1) to reproduce the copyrights work. . . ; (2) to prepare derivative works based upon the copyrighted work; . . . ." [17 U.S.C. § 106.] Second, "[w]hen an individual author's ownership of a copyright, or of any of the exclusive rights under a copyright, has not previously been transferred voluntarily by that individual author, no action by an governmental body or other official or organization purporting to seize, expropriate, transfer or exercise rights or ownership with re-

spect to the copyright, or any of the exclusive rights under a copyright, shall be given effect under this title . . . ." [17 U.S.C. § 201.]

Section 201, however, prohibits the involuntary transfer of *ownership* of a copyright or of the exclusive rights under a copyright. The arbitrator's award does not transfer any of Intel's ownership rights in the 386. Rather, it transfers to AMD *license* rights to produce/use/sell its reverse-engineered 386. "A copyright license is a grant of the right to make, use, or sell the copyrighted work; it is an assignment of rights less in degree than the copyright itself." [*United States v. Wells* (1959) 176 F.Supp. 630, 634.] The Award does not divest Intel of any of its exclusive ownership rights as set forth in 17 U.S.C. § 106 and, therefore, does not violate 17 U.S.C. § 201.

Intel argues further the award impermissibly enjoins federal court litigation. Intel looks to the wording of the award ("intent to provide a complete and dispositive defense" and "preclude and defeat" future litigation), as well as a prior draft of the aware in which the arbitrator specifically sought to enjoin Intel's federal litigation, as evidence that the award is, in effect, an injunction.

In *Donovan v. City of Dallas* (1964) 877 U.S. 408, a Texas state court issued an injunction prohibiting the plaintiffs in a prior state court action from pursuing their litigation in federal court. The Supreme Court held that the state court was "without power to enjoin these litigants from prosecuting their federal-court action." [*Id.* at 411.] Being properly in the federal court, the petitioners' had a right to have the federal court decide the issues they presented and the state court was completely without power to restrain the proceedings. [*Id.* at 412-13.]

Unlike *Donovan*, the arbitrator's award here does not enjoin Intel from pursuing its copyright infringement claims in federal court. Intel is as free to institute and prosecute actions as it was before the award. The fact that the arbitrator included precatory language in the award stating his intent that the award of the rights constitute a

complete defense that will defeat present and future litigation does not mean that it will have that effect. Once a final judgment is had in this court, the judgment "may be set up as res judicata in the [federal court]. . . . And whether or not a plea of res judicata in the second suit would be good is a question for the federal court to decide." [*Id.* at 412]

Moreover, that the arbitrator may have assigned an erroneous reason for his decision by "intending" that it preclude federal litigation does not mean that he exceeded his jurisdiction in making the award. [*See Hacienda Hotel v. Culinary Workers Union, supra.*]

The award does not constitute an impermissible injunction on Intel's right to pursue federal litigation and is, therefore, not in violation of the Constitution.

Conclusion:

Based on the foregoing, AMD's motion to confirm the arbitration award is granted and Intel's motion to correct is denied.

Dated: May 22, 1992 /s/ Read Ambler
READ AMBLER
Judge of the Superior Court

APPENDIX B(iii)

SUPERIOR COURT OF THE STATE OF CALIFORNIA
COUNTY OF SANTA CLARA

No. 626879

In the Matter of the Arbitration Between

ADVANCED MICRO DEVICES, INC.,
a Delaware Corporation,

Petitioner,

and

INTEL CORPORATION, a California Corporation,

Respondent.

ORDER GRANTING PETITION TO CONFIRM AND ORDER DENYING PETITION TO CORRECT ARBITRATION AWARD AND JUDGMENT

The petition of Advanced Micro Devices, Inc. ("AMD") to confirm arbitration award and petition of Intel Corporation ("Intel") to correct arbitration award came on for hearing on May 15, 1992 before the Honorable Read Ambler, Judge of the Superior Court. Robert A. Van Nest, of Keker, Brockett and Van Nest, and Michael Bailey, of Brown & Bain appeared for Intel and Terrence P. McMahon and David T. Alexander, of Jackson, Tufts, Cole & Black appeared for AMD.

The matter having been thoroughly briefed and argued and the Court having been fully advised of the same, it is hereby ordered that AMD's petition to confirm the arbitration award is granted and that Intel's petition to correct the arbitration award is denied.

It is further adjudged and decreed that:

1. The Arbitration Award, attached hereto as Exhibit A and incorporated herein, constitutes the Judgment of this Court;

2. Judgment shall be entered in conformity with said Arbitration Award; and

3. AMD shall recover its costs in the Superior Court proceedings exclusive of the arbitration.

Dated: May 29, 1992 /s/ Read Ambler Read Ambler
Judge of the Superior Court

APPENDIX B(iii), EXHIBIT A

SUPERIOR COURT OF THE STATE OF CALIFORNIA

COUNTY OF SANTA CLARA

No. 626879

In the Matter of the Arbitration Between

ADVANCED MICRO DEVICES, INC.,
a Delaware Corporation,

and

INTEL CORPORATION, a California Corporation.

AWARD OF ARBITRATOR

The award of the Arbitrator in this matter is as follows:

1. The covenant case:

For breach of the covenant of good faith and fair dealing AMD is awarded damages in the nominal amount of $1 plus the relief afforded in paragraphs 5 and 6 hereof.

2. The 80286 Updates case:

For Intel's failure to deliver Updates to the 80286 D-step in proper form and when due AMD is awarded damages in the amount of $7,089,779 together with prejudgment interest from April 10, 1987 pursuant to Civil Code Section 3287(b) at the rate prescribed by law.[1]

3. The 8087/80287 case:

For Intel's failure to deliver the manufacturing package of the 8087 when due AMD is awarded damages in the

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[1] A discussion of the award of pre-judgment interest is found at pages 86 to 88 in the Arbitrator's decision attached hereto.

amount of $3,081,201 together with prejudgment interest from April 10, 1987 pursuant to Civil Code Section 3287(b) at the rate prescribed by law. In addition, AMD is awarded all the rights that would have been included in the 8087 manufacturing package had it been transferred to AMD as required under the 1982 AMD/Intel Agreement. AMD may not recover 80287 damages.

4. For Intel's failure to negotiate reasonably over the specifications of the QPDM, its failure promptly to notify AMD about the 80286 S-step, its actions in delaying transmission of proper 80C51 information, its actions in respect to the SCSI (small computer systems interface) and its actions in respect to the 80C286 AMD is awarded nominal damages in the amount of $1 plus the relief granted in paragraphs 5 and 6 hereof.

5. AMD is hereby awarded a permanent, royalty-free, non-exclusive, non-transferable, worldwide right (but not the right to assign, license or sublicense such right to any other party) under any and all Intel copyrights, patents, trade secrets and maskwork rights contained in the current versions of AMD's reverse-engineered 80386 family of microprocessors, to make, have made by a third party solely for AMD, use and sell the prior, current and future revisions and modifications of those products. Later generation microprocessors, of those products. Later generation microprocessors, including the 80486 family, shall not be deemed "revisions" or "modifications" of any such product within the meaning of this paragraph or paragraph 6 of this award provided, however, that this definitional clarification shall not limit or preclude AMD's right to incorporate or utilize any part or portion of the AMD 80386 family of microprocessors (including the rights set forth above) in other AMD products, including the AMD 80486. The intent of this paragraph is to provide a complete and dispositive defense to AMD as to the Intel claims against AMD regarding the technology and intellectual property used in AMD's current versions of the 80386 in such lawsuits as *Intel Corp. v. Advanced Micro Devices, Inc.* (A 91 CA 800) in the United States District Court

for the Northern District of California), and *Intel Corp. v. Advanced Micro Devices, Inc.* (C 90 20571 WAI) in the United States District Court for the Northern District of California), and to preclude and defeat other potential Intel intellectual property infringement claims with respect to the technology used in AMD's aforedescribed past and current versions, and future revisions and modifications, of the 80386. This license does not extend to any Intel intellectual property not already contained in the current versions of the AMD reverse-engineered family of 80386 microprocessors.

By this award, I do not intend to express or imply an opinion as to whether any Intel intellectual property rights are incorporated in any of the AMD 80386 family of microprocessors or whether any of the AMD 80386 family of microprocessors infringes any Intel intellectual property rights, the intent of the award (as indicated above) being to grant AMD all rights necessary to allow AMD to produce and sell its AMD 80386 family of microprocessors, and revisions and modifications, thereof, free from harassment by Intel.

The rights awarded above shall be deemed effective continuously since the time AMD commenced reverse engineering the 80386 and shall extend indefinitely into the future.

6. In addition to the nominal damages awarded AMD for Intel's breaches as set forth in paragraphs 1 and 4 hereof it is ordered that the rights conferred upon AMD under the 1982 AMD/Intel Agreement (which extended until 1995 the patent and copyright licenses originally granted by an agreement between the parties in 1976) are hereby extended two years from their present date of expiration only insofar as they relate to or concern the AMD 80386 and its revisions or modifications, if any.

7. AMD is not entitled to CF points for the HDC, for the AHDC or for the QPDM.

8. Intel is not liable for its alleged failure to return to AMD "excess" unit royalties paid by AMD to Intel pur-

suant to Paragraph C-2 of the Amendment to the Contract. AMD's motion to reconsider that part of the Arbitrator's HDC decision holding that AMD had not provided working samples of the HDC so as to earn the appropriate CF points for this act is denied.

9. Each party will bear its own attorney's fees and each party will bear equally the costs of administration of the arbitration. However, the liability of the parties for the fees of the Arbitrator and his staff is joint and several.

10. All other claims set forth either by AMD or Intel in the Order of Reference are either deemed abandoned by the proponent, are dismissed by the Arbitrator or are decided adversely to the proponent as per the Liability Decision appended hereto.

Because this arbitration involved many discrete issues which were tried, briefed and decided separately, this award has tried to segregate these in an orderly fashion. While it is the intent of the Arbitrator that the award be confirmed as a whole and while the Arbitrator is comfortable with the award in its entirety and feels that it represents a just and fair solution to all of the problems submitted to the Arbitrator for resolution, he is nevertheless aware of the fact that either party may for one reason or another object to a particular conclusion on a particular issue. Therefore, in order the preserve the balance of the award in the event the Arbitrator's conclusion in respect to a particular issue or issues be deemed to be in violation of Code of Civil Procedure Section 1286.2 and/or in the event the award may not be corrected without affecting the merits of the entire decision pursuant to Civil Code of Procedure Section 1286.6 the Arbitrator hereby states that the conclusions reached with respect to any particular issue in any particular paragraph above are severable from the remainder of the award.

A memorandum by the Arbitrator explaining his decision in respect to each of the paragraphs of the award is attached.

Dated: February 24, 1992

/s/ J. Barton Phelps
Honorable J. Barton Phelps
Arbitrator

APPENDIX B(iv)

CALIFORNIA COURT OF APPEAL, SIXTH DISTRICT.

No. H009897.

ADVANCED MICRO DEVICES, INC.,
Plaintiff and Respondent.

v.

INTEL CORPORATION,
Defendant and Appellant.

June 4, 1993.

As Modified on Denial of Rehearing July 2, 1993.

Review Granted Sept. 2, 1993.

COTTLE, Presiding Judge.

Intel Corporation appeals from a judgment confirming an arbitration award in favor of Advanced Micro Devices, Inc. (AMD). Intel challenges those portions of the award in which the arbitrator granted AMD the right to Intel intellectual property contained in the Am386 microprocessor (paragraph 5 of the award) and extended for two years certain rights conferred upon AMD by Intel under a 1982 agreement insofar as those rights related to the Am386 microprocessor and any revisions or modifications of it (paragraph 6 of the award). We hold that the arbitrator exceeded his powers by fashioning a remedy which did not fall within the scope of the parties' agreement, but that the award may be corrected without affecting the merits of the decision. Accordingly, we reverse the judgment with directions to correct the award and to confirm the award as corrected. (Code Civ.Proc., § 1286.6, subd. (b).)

Facts and Proceedings

Both AMD and Intel are semi-conductor companies which create, design, produce and market microprocessors. In February 1982, AMD and Intel entered into a 10-year contract in which they agreed to exchange "technical information so that each party acquire[d] the capability to develop products suitable for sale as an alternate source for products developed by the other party." Thus, the contract permitted AMD to earn rights to manufacture Intel products by developing new products accepted by Intel. If AMD earned such rights, it would receive a "how-to-kit" of technical and other data to allow it to manufacture the product, known as a "Manufacturing Package." AMD would also receive certain license rights, excluding "have made" rights, that is, the right to have another company fabricate the product for sale by AMD. The grant of these rights to AMD was coupled with an obligation by AMD to pay royalties on each sale of an exchanged product. The purpose of this type of contract is to provide a steady supply or second source of a particular product.

In April 1987, AMD filed a petition to compel arbitration pursuant to the contract arbitration clause. AMD sought the rights to manufacture and sell the Intel 386 or 80386 microprocessor. Following a hearing, the court issued an order of reference which itemized the claims submitted to arbitration and the scope of the arbitrator's jurisdiction to award remedies. The issues submitted to arbitration included whether Intel had breached the covenant of good faith and fair dealing and whether Intel was required to give AMD the manufacturing package and licenses to manufacture and sell the Intel 386 microprocessor. With respect to the issue of remedies, the parties stipulated the arbitrator would be limited to awarding remedies that originated in the contract: "The Arbitrator may grant any remedy or relief which the Arbitrator deems just and equitable and within the scope of the agreement of the parties, including, but not limited to, specific performance of a contract." The order of reference also confined the arbitrator to remedies

"as he may in his discretion determine to be fair and reasonable but not in excess of his jurisdiction."

In September 1987, the arbitration hearings began. After almost five years of hearings, the arbitrator concluded, inter alia, that AMD was not entitled to rights to the Intel 386 under the contract. The arbitrator rejected each claim that Intel should have accepted various AMD products, finding that the AMD products were inferior and Intel had sound business reasons for rejecting them. The arbitrator next determined that Intel breached the contract by failing to deliver promptly certain product information promised AMD. The arbitrator also found Intel breached the covenant of good faith and fair dealing by concealing its intention to take no products from AMD under the contract. However, the arbitrator determined that following Intel's decision, AMD did not offer any products, that both parties knew AMD had no products to offer in the foreseeable future, and that any harm suffered by AMD was not the result of Intel's conduct. "AMD became a victim—but not of Intel's plan: AMD was victimized by its own inability to adjust to what it knew to be reality in 1984 and 1985 and 1986" (Emphasis omitted.)

In late 1990, AMD began introducing its own reverse engineered version of the Intel 386, known as the Am386. Thus, AMD entered the market even though it never received a manufacturing package from Intel. Although license rights were significant to AMD, it no longer needed the rest of the Intel 386 manufacturing package.

The hearings relating solely to remedies began on March 7, 1991, and ended on October 30, 1991. The arbitrator awarded AMD over $15 million for Intel's failure to deliver certain product information.[1] The arbitrator also discussed the remedy for Intel's breach of the covenant of good faith and fair dealing: "The award of the Arbitrator in this matter is as follows: 1. The covenant case: [¶] For breach

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[1] The arbitrator also awarded AMD the rights included in the 8087 manufacturing package as required under the agreement.

of the covenant of good faith and fair dealing AMD is awarded damages in the nominal amount of $1 plus the relief afforded in paragraphs 5 and 6 hereof. . . . [¶] 5. AMD is hereby awarded a permanent, royalty-free, non-exclusive, non-transferable, worldwide right (but not the right to assign, license or sublicense such right to any other party) under any and all Intel copyrights, patents, trade secrets and maskwork rights contained in the current versions of AMD's reverse-engineered 80386 family of microprocessors, to make, have made by a third party solely for AMD, use and sell the prior, current and future revisions and modifications of those products. . . . The intent of this paragraph is to provide a complete and dispositive defense to AMD as to the Intel claims against AMD regarding the technology and intellectual property used in AMD's current versions of the 80386 in such lawsuits as *Intel Corp. v. Advanced Micro Devices, Inc.* (A 91 CA 800) in the United States District Court for the Norther[n] District of California, and *Intel Corp. v. Advanced Micro Devices, Inc.* (C 90 20572 WAI) in the United States District Court for the Northern District of California, and to preclude and defeat other potential Intel intellectual property infringement claims with respect to the technology used in AMD's aforedescribed past and current versions, and future revisions and modifications, of the 80386. . . . [¶] 6. In addition to the nominal damages awarded AMD for Intel's breaches as set forth in paragraphs 1 and 4 hereof it is ordered that the rights conferred upon AMD under the 1982 AMD/Intel Agreement (which extended until 1995 the patent and copyright licenses originally granted by an agreement between the parties in 1976) are hereby extended two years from their present date of expiration only insofar as they relate to or concern the AMD 80386 and its revisions or modifications, if any."

The arbitrator explained this portion of the award as follows: "It is the purpose of these paragraphs to attempt to abort the incessant warfare which has gone on between these companies for the past five years. Each of them has

attempted to use the court system as a means of corporate strategy. By means of the orders contained in these paragraphs of the Award I intent that AMD be permitted to go forward in its production and sale of the AMD reverse engineered 80386 without harassment from Intel from any further law suit alleging that AMD has incorporated into that product any Intel intellectual property; and because of the manner in which Intel to some extent lulled AMD into some sense of well-being about the continuation of the relationship and to some extent contributed to AMD's delay in reverse engineering the 80386, I have decided that it is just and equitable that AMD be permitted to use the right which it has under the 1982 AMD/Intel agreement (i.e., that part which extends until 1995 the patent and copyright licenses originally granted by an agreement between the parties in 1976) for an additional two years from the present date of the expiration of those rights." (Emphasis omitted.)

On March 5, 1992, AMD filed a petition to confirm the award of the arbitrator. Shortly thereafter, Intel filed a petition to correct the arbitration award. Following a hearing, the superior court confirmed the arbitrator's award.

Discussion

California's private arbitration statute provides that when a petition to confirm an arbitrator's award is duly served and filed, "the court shall confirm the award as made . . . unless in accordance with this chapter it corrects the award and confirms it as corrected, vacates the award or dismisses the proceeding." (Code Civ.Proc., § 1286.) Specific provisions of the statute govern vacation, correction, and dismissal. There is no ground for dismissal in this record.

The California Supreme Court recently discussed the scope of judicial review of arbitration awards. (*Moncharsh v. Heily & Blase* (1992) 3 Cal.4th 1, 10 Cal.Rptr.2d 183, 832 P.2d 899.) It reiterated that "the Legislature has expressed a 'strong public policy in favor of arbitration as

a speedy and relatively inexpensive means of dispute resolution.' " (*Id.* at p. 9, 10 Cal.Rptr.2d 183, 832 P.2d 899, quoting *Ericksen, Arbuthnot, McCarthy, Kearney & Walsh, Inc. v. 100 Oak Street* (1983) 35 Cal.3d 312, 322, 197 Cal.Rptr. 581, 673 P.2d 251.) " '[T]he essence of the arbitration process is that an arbitral award shall put the dispute to rest.' " (*Id.* 3 Cal.4th at p. 10, 10 Cal.Rptr.2d 183, 832 P.2d 899, quoting Comment, *Judicial Deference to Arbitral Determinations: Continuing Problems of Power and Finality* (1976) 23 UCLA L.Rev. 948-949.) Thus, the court reaffirmed the general rule that the grounds for vacating an award are limited to those enunciated in the statutes. (*Id.* at pp. 12-13, 10 Cal.Rptr.2d 183, 832 P.2d 899.)

The only arguably pertinent statutory provision for either vacating or correcting the award in this case would be that "[t]he arbitrators exceeded their powers. . . ." (Code Civ.Proc., §§ 1286.2, subd. (d); 1286.6, subd. (b).) Where an award in excess of the arbitrator's powers "may be corrected without affecting the merits of the decision upon the controversy submitted," the court shall correct the award the confirm it as corrected (*id.*, § 1286.6 subd. (b)); if such an award cannot be so corrected it shall be vacated (*id.*, § 1286.2, subd. (d)).

The scope of the arbitrator's powers is to be defined without reference to the abstract propriety of the manner in which the arbitrator purported to exercise those powers. As the court noted in *Southern Cal. Rapid Transit Dist. v. United Transportation Union* (1992) 5 Cal.App.4th 416, 6 Cal.Rptr.2d 804, "the scope of judicial review . . . is extremely narrow. 'Even if the arbitrator's decision on the issue submitted was wrong . . . [if] it was within his power to make that decision [the] plaintiff is bound by it.' Thus, '"[n]either the merits of the controversy . . . nor the sufficiency of the evidence to support the arbitrator's award are matters for judicial review."' [Citations.]" (5 Cal.App.4th at pp. 422-423, 6 Cal.Rptr.2d 804.)

Intel does not question the power of the arbitrator to have found that Intel had *breached* the parties' agreements

and the covenants of good faith and fair dealing implicit in those agreements. Intel asserts narrowly that the arbitrator lacked the power to order the *remedies* represented by paragraphs 5 and 6 of the award.

AMD argues that at least with respect to remedies the *scope* of the arbitrator's powers, like the manner of *exercise* of powers once established, is for the arbitrator himself or herself to determine without judicial interference. We disagree. Case law has held that the court determines the scope of the arbitrator's jurisdiction except where the parties have unambiguously and expressly given such power to the arbitrator. (*Key Ins. Exch. v. Biagini* (1967) 250 Cal.App.2d 143, 147, 58 Cal.Rptr. 408.) Thus, in all but the exceptional case, "[w]hether the arbitrator's decision exceeded the arbitrator's powers is a question of law we review do novo on appeal." (*Southern Cal. Rapid Transit Dist. v. United Transportation Union, supra,* 5 Cal.App.4th at p. 423, 6 Cal.Rptr.2d 804; cf. *Hacienda Hotel v. Culinary Workers Union* (1985) 175 Cal.App.3d 1127, 1133-1134, 223 Cal.Rptr. 305.)

Here the record of the jurisdictional hearings establishes that the parties did not give the arbitrator exclusive authority to decide which remedies were within the scope of his jurisdiction. As the court stated: "The Court is not going to take up the issues now of what the remedies [are] that the arbitrator can or cannot make. That's a matter for the Court after the arbitrator makes a mistake, if he does." AMD also acknowledged this point. "In the event either party believes that any relief awarded is beyond the jurisdiction of the arbitrator, that is a specific ground upon which to challenge its confirmation or to appeal from the Arbitrator's award."

At the conclusion of the jurisdictional hearings, the court again indicated that the arbitrator's authority was limited to what was specified in the contract. "THE COURT: . . . Now, you see, what these rulings do, they give you an out and a protection. If I come up with wrong answers to all of these in the arbitration, you've got to appeal.

Yes, you do. [¶] [MICHAEL BAILEY] [for Intel]: I've got to appeal they were improperly submitted to arbitration, yes. Can we talk about the relief that's prayed for? [¶] THE COURT: No, because what we're going to do is talk about relief when we get to the arbitration. . . . [¶] I'm not going to rule on any of the remedies available until I get into the arbitration. . . . Now, if I've made an award which cannot be sustained under the contract in which I have no power to make, it can't be confirmed, beyond my jurisdiction, Michael. . . . [¶] [GERALD] MARER [for AMD]: Well, if the arbitrator exceeds his jurisdiction in giving certain relief, it's set aside."

The arbitrator also recognized the limitations on his power by making each paragraph of the award severable "in the event the Arbitrator's conclusion in respect to a particular issue or issues be deemed to be in violation of Code of Civil Procedure section 1286.2 . . . [or] 1286.6. . . ." Thus, the record establishes that the arbitrator was not authorized to determine which remedies were within the scope of his jurisdiction without judicial review.

Under the general rule it follows that we may consider de novo whether remedial paragraphs 5 and 6 of the award exceeded the arbitrator's powers.

"[W[hen it comes to formulating remedies . . . an arbitrator is confined to interpretation and application of the . . . agreement; . . . his award is legitimate only so long as it draws its essence from the . . . agreement. When the arbitrator's words manifest an infidelity to this obligation, courts have no choice but to refuse enforcement of the award." (*Steelworkers v. Enterprise Corp.* (1960) 363 U.S. 593, 597, 80 S.Ct. 1358, 1361, 4. L.Ed.2d 1424.)

California courts have also followed this principle by vacating or correcting awards where the remedy was not derived from the parties' agreement. In *Drake v. Stein* (1953) 116 Cal. App. 2d 779, 254 P.2d 613, the arbitrator awarded damages rather than the transfer of a parcel of realty. The reviewing court reversed, stating "when appellants agreed in clear and unambiguous language to

transfer a specific parcel of real estate and a policy of title insurance for the faithful performance of certain services by respondent it was not intended thereby to authorize the future arbitrators to award something else to respondent in case of an arbitration." (*Id.* at p. 785, 254 P.2d 613.)

In *Firestone Tire & Rubber Co. v. United Rubber Workers* (1959) 168 Cal.App.2d 444, 335 P.2d 990, the issue for the board of arbitration was whether an employee in classification A who was temporarily working in classification B was entitled to the A or B rate of pay. When the board of arbitration concluded the employee was entitled to a rate of pay from classification C, the court vacated the award because it violated the unambiguous language of the parties' agreement. The court reasoned that an arbitrator is not " 'released from the obligation to be guided by the basic agreement of the litigants.' " (*Id.* at p. 448, 335 P.2d 990, quoting *Drake v. Stein*, *supra*, 116 Cal.App.2d 779, 254 P.2d 613.)

The case before us is more difficult. The parties' agreement itself does not address remedies. When this dispute arose the parties stipulated that the arbitrator could "grant any remedy or relief which the Arbitrator deems just and equitable and within the scope of the agreement. . . ." The subsequent order of reference also limited the arbitrator to remedies "as he may in his discretion determine to be fair and reasonable but not in excess of his jurisdiction." Patently neither the stipulation nor the order of reference explicitly defined the arbitrator's power to specify a remedy.

In such cases we have tended to give credence to an arbitrator's rational assessment of the scope of the underlying agreement. (Cf., e.g., *Tate v. Saratoga Savings & Loan Assn.* (1989) 216 Cal.App.3d 843, 855, 265 Cal.Rptr. 440; cf. also *Summit Industrial Equipment, Inc. v. Koll/Wells Bay Area* (1986) 186 Cal.App.3d 309, 320, 230 Cal.Rptr. 565.) Nevertheless the question of the arbitrator's remedial powers remains one of law, subject to our de novo review, and the standard must be whether the

remedial provision in issue "draws its essence from the . . . agreement." (*Steelworkers v. Enterprise Corp., supra*, 363 U.S. at p. 597, 80 S.Ct. at p. 1361.)

AMD argues, on the basis of *Southern Cal. Rapid Transit Dist. v. United Transportation Union, supra*, 5 Cal.App.4th 416, 6 Cal.Rptr.2d 804, that because nothing in the agreement *expressly prohibited* the relief specified in paragraphs 5 and 6, the relief was within the arbitrator's powers and must be upheld. We could not endorse so broad a rule, and in any event we do not read *Southern Cal. Rapid Transit Dist.* as broadly as AMD would.

Southern Cal. Rapid Transit Dist. involved asserted breach of a labor contract between the rapid transit district and a union which represented district employees. One provision of the contract required, as a condition to sale, transfer or other disposition of district facilities, that the transferee be required to observe all existing labor contracts and to provide job security for employees covered by this labor contract. The union sought arbitration under the labor contract, asserting that the district had consented to a transfer of bus lines to a newly-created district without complying with the summarized provision. The arbitrator agreed with the union and, as a remedy, held the district's consent to transfer of the bus lines was " 'void and invalid and . . . should be withdrawn.' " (5 Cal.App.4th at p. 422, 6 Cal.Rptr.2d 804.) A question on appeal was whether this remedy exceeded the arbitrator's powers. The Court of Appeal concluded it did not: "The stipulation of submission only precluded the arbitrator from awarding monetary damages. Thus, it is assumed the arbitrator had the power to order any other remedy not inconsistent with the collective bargaining agreement. [Citations.] Because nothing in the agreement expressly prohibited the remedies imposed, their imposition by the arbitrator must be held proper. [Citations.]" (*Id.*, at p. 424, 6 Cal.Rptr.2d 804.)

It is apparent to us that the remedy ordered in *Southern Cal. Rapid Transit Dist.* was in the nature of direct en-

forcement of an explicit provision of the underlying agreement and thus unquestionably drew its essence from the agreement. We do not view the suggestion that nothing in the agreement expressly prohibited the remedy to have been an alternative test; instead it is apparent that any proposed remedy must *both* be within the range of remedies rationally related to the meaning and purpose of the agreement *and* not be explicitly foreclosed by the agreement.

In this case, although (as AMD asserts) the parties' agreement does not explicitly foreclose the remedies the arbitrator directed, we cannot find the requisite rational nexus between the agreement and paragraphs 5 and 6 of the award. The parties' dispute grew directly out of a written agreement, the agreement provided for arbitration of disputes which might "arise under this Agreement," and the arbitrator was charged by the order of reference to determine whether there had been breaches of explicit or implicit covenants of that agreement and, if so, to fashion fair and reasonable remedies. Patently the agreement contemplated, and the order of reference must be deemed to have authorized, contract remedies. But the arbitrator granted to AMD rights which exceeded those it could have obtained from Intel under the contract. Although AMD claimed it had earned rights to the Intel 386 under the contract, the arbitrator concluded Intel never agreed to transfer rights to the Intel 386 and AMD did not earn the right to manufacture the Intel 386 by developing new products accepted by Intel. Nevertheless, the arbitrator awarded to AMD a right to Intel intellectual property contained in the Am386. While the Intel 386 was a product that AMD could have earned under the contract, the Am386 was not. Thus, by granting AMD the right to manufacture and sell what is claimed to be an infringing product absent an exchange of products under the contract, the arbitrator rewrote the parties' agreement. He rewrote the agreement in other ways as well. The arbitrator also awarded to AMD the right to have the Am386 manufactured by a third party. This right was specifically

withheld in the contract. The contract required royalty payments of three percent on one party's use of the other's technology pursuant to the contract license, while the award does not require royalty payments. The arbitrator extended the 1976 patent licensing agreement for two years which the parties could not have done under the contract. Since the arbitrator fashioned a remedy which was not within the scope of the parties' agreement, he exceeded his power.

It follows that the judgment confirming the arbitration award must be reversed.[2] The remaining question is whether the award may be corrected without affecting the merits of the decision. If so, we may direct that the trial court simply correct the award and confirm it as corrected. If not, we must direct that the award be vacated.

We conclude that the award may be corrected without affecting the merits. It is apparent that the arbitrator added paragraphs 5 and 6 because he felt he had exhausted all remedies available within the scope of the agreement without satisfying his own sense of what the circumstances required. So long as the arbitrator remained within the scope of the agreement he exercised powers the parties had granted him; we cannot and will not interfere with the remedial provisions of the award other than paragraphs 5 and 6. Paragraphs 5 and 6, on the other hand, may be treated as surplusage: The award will stand without them.

The judgment is reversed. The cause is remanded to the superior court with directions to correct the award by deleting paragraphs 5 and 6 and to confirm the award as so corrected. Each party shall bear its costs on appeal.

BAMATTRE-MANOUKIAN and WUNDERLICH, JJ., concur.

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[2] The opinion of another Court of Appeal in *Pacific Gas and Electric Co. v. Superior Court* (1993) 15 Cal.App.4th 576, 19 Cal.Rptr.2d 295, filed after oral argument in this case and not yet final for all purposes, is not inconsistent with the conclusion we reach.

APPENDIX B(v)

SUPREME COURT OF CALIFORNIA, IN BANK

No. S033874

ADVANCED MICRO DEVICES, INCORPORATED,
Respondent,

v.

INTEL CORPORATION,
Appellant.

Sept. 2, 1993

Prior report: Cal. App., 20 Cal.Rptr.2d 73

Respondent's petition for review GRANTED.

LUCAS, C.J., and PANELLI, ARABIAN, and GEORGE, JJ., concur.

BAXTER, J., did not participate.

APPENDIX C

APPENDIX C(i)

No. 92-16899

D.C. No. 92-20039-RMW

INTEL CORPORATION,
Plaintiff-Appellant,

v.

ADVANCED MICRO DEVICES,
Defendant-Appellee.

ORDER DENYING PETITION FOR REHEARING AND REJECTING SUGGESTION FOR REHEARING EN BANC

Before: REINHARDT and LEAVY, Circuit Judges, and MERHIGE,*** District Judge.

The panel has unanimously voted to deny appellee's petition for rehearing. The suggestion for rehearing en banc was circulated to the active judges of the court, and no judge requested a vote for en banc consideration.

The petition for rehearing is DENIED and the suggestion for rehearing en banc is REJECTED.

[Filed: February 15, 1994]

***The Honorable Robert R. Merhige, Jr., Senior United States District Judge for the Eastern District of Virginia, sitting by designation.

APPENDIX C(ii)

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

No. 92-16899

D.C. No. 92-20039-RMW

INTEL CORPORATION,
Plaintiff-Appellant,

v.

ADVANCED MICRO DEVICES,
Defendant-Appellee.

ORDER DENYING MOTION FOR STAY OF MANDATE PENDING PETITION TO THE SUPREME COURT FOR WRIT OF CERTIORARI

Before: REINHARDT, Circuit Judge

Defendant-Appellee's motion to stay issuance of the mandate pending application to the Supreme Court for a writ of certiorari is denied.

[Filed: February 23, 1994]

APPENDIX C(iii)

OFFICE OF THE CLERK
UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

February 28, 1994

Case Number: C92-20039-WAI(PVT)

Case Title: INTEL CORP. V. ADVANCE MICRO-DEVICES, INC. [sic]

Date Mandate Filed: 2/25/94

TO COUNSEL OF RECORD:

The mandate of the United States Court of Appeals for the Ninth Circuit has been filed in the above captioned case.

Sincerely,

RICHARD W. WIEKING, Clerk

/s/ Keely Kirkpatrick
by: Keely Kirkpatrick
Case Systems Administrator

APPENDIX C(iv)

SUPREME COURT OF THE UNITED STATES
OFFICE OF THE CLERK
WASHINGTON, DC 20543

March 11, 1994

Mr. Carl R. Schenker
[555] 13th Street, N.W.
Suite 500 West
Washington, D.C. 20004

Re: Advanced Micro Devices, Inc.,
v. Intel Corporation
Application No. A-731

Dear Mr. Schenker:

The application to recall and stay the mandate pending petition for writ of certiorari in the above-entitled case has been presented to Justice O'Connor, who on March 11, 1994, endorsed thereon the following:

"Denied
Sandra D. O'Connor
March 11, 1994"

Sincerely,

WILLIAM K. SUTER, Clerk

By

/s/ Cynthia Rapp
Cynthia Rapp
Assistant Clerk

APPENDIX D

APPENDIX D(i)

[EXCERPTS FROM]

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF CALIFORNIA

Civil Action No. C92 20039
PVT

INTEL CORPORATION,

Plaintiff,

v.

ADVANCED MICRO DEVICES, INC.,

Defendant.

September 15, 1992

INTEL'S MEMORANDUM IN SUPPORT OF ITS CROSS MOTION FOR PARTIAL SUMMARY JUDGMENT AND OPPOSING AMD'S MOTIONS FOR SUMMARY JUDGMENT OR FOR A STAY

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[Page 2]

[The arbitration award] was an attempt to impose a resolution to this action in a manner expressly prohibited by federal law. . . . Intel asks this court to enforce a controlling federal statute (17 U.S.C. § 106) with respect to an award made in direct violation of that statute, and to decide the question of preclusive effect that AMD's stay motion squarely raised.

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[Page 31]

The Arbitrator was not permitted to award AMD immunity for copyright infringement. In so doing, he violated 17 U.S.C. § 106. Intel has never consented to such immunity, and the Arbitrator's attempts to adjust Intel's exclusive rights under the Copyright Act and to interfere with the jurisdiction of this Court by "deciding" this case were a nullity.

APPENDIX D(ii)

[EXCERPTS FROM]

UNITED STATES COURT OF APPEALS

NINTH CIRCUIT

No. 92-16899

INTEL CORPORATION,
Plaintiff-Appellant,

v.

ADVANCED MICRO DEVICES, INC.,
Defendant-Appellee.

Appeal from the United States District Court
Northern District of California

BRIEF OF APPELLANT

November 18, 1992

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* * *

[Page 13]

The questions presented are matters of serious federal concern. In the important field of microprocessors, Intel is an innovator and AMD is a copier. In the name of competition, the law generally permits copiers to prey on innovators, except where an overriding policy requires that innovators, for a limited time, be given exclusive rights to the value of their innovation. It is a matter not only of federal, but of *preemptive* federal—even Constitutional—concern, that an author of original expression enjoy the exclusive right to copy and sell that expression during the

term of the copyright. When a state or a private arbitrator interferes with that right by unauthorized fiat, the federal government has a compelling interest in protecting the federal copyright system and the rights of a federal copyright holder. Section 106 of the Copyright Act is the heart and soul of federal copyright protection. . . .

****

[Page 26]

Conclusion

The arbitrator's attempt to immunize AMD's post-contract and post-Order of Reference copyright infringement of Intel's 80386 microcode was illegal under section 106 of the Copyright Act. The question was fully briefed and argued, and was squarely presented to the district court in the ordinary course of the case . . . .

APPENDIX D(iii)

UNITED STATES COURT OF APPEALS
NINTH CIRCUIT

No. 92-16899

INTEL CORPORATION,
Plaintiff-Appellant,

v.

ADVANCED MICRO DEVICES, INC.,
Defendant-Appellee.

Appeal from the United States District Court
Northern District of California

REPLY BRIEF OF APPELLANT

February 1, 1993

****

[Pages 21-22]

Requested Relief

The district court's stay was improper on several grounds. One key ground is that the arbitrator's award of 80836 rights to AMD violated Section 106 of the Copyright Act. The issue was fully briefed and argued, but the district court declined to deny the stay based upon it. The illegality question depends entirely upon whether the arbitrator held that AMD was not entitled to rights to Intel's 80386 under the 1982 Contract (as he did), and whether Intel authorized the arbitrator to award only remedies that he deemed to be within the scope of the contract before

him (as it did). That issue is properly presented here. . . . Because the illegality of the arbitrator's decision is again fully briefed and ripe for decision, and because it should have required denial of the stay in the court below, Intel asks this Court to reach that question in deciding the appeal so that the remainder of the case may be resolved without unnecessary delay.

The district court's order granting a stay should be reversed on the ground, among others, that the arbitrator's award of 80386 rights violated Section 106 of the Copyright Act. . . .

APPENDIX E

TEXT OF STATUTES INVOLVED

9 U.S.C. § 3

§ 3. Stay of proceedings where issue therein referable to arbitration

If any suit or proceeding be brought in any of the courts of the United States upon any issue referable to arbitration under an agreement in writing for such arbitration, the court in which such suit is pending, upon being satisfied that the issue involved in such suit or proceeding is referable to arbitration under such an agreement, shall on application of one of the parties stay the trial of the action until such arbitration has been had in accordance with the terms of the agreement, providing the applicant for the stay is not in default in proceeding with such arbitration.

9 U.S.C. § 10

§ 10. Same; vacation; grounds; rehearing

(a) In any of the following cases the United States court in and for the district wherein the award was made may make an order vacating the award upon the application of any party to the arbitration—

(1) Where the award was procured by corruption, fraud, or undue means.

(2) Where there was evident partiality or corruption in the arbitrators, or either of them.

(3) Where the arbitrators were guilty of misconduct in refusing to postpone the hearing, upon sufficient cause shown, or in refusing to hear evidence pertinent and material to the controversy; or of any other misbehavior by which the rights of any party have been prejudiced.

(4) Where the arbitrators exceeded their powers, or so imperfectly executed them that a mutual, fi-

nal, and definite award upon the subject matter submitted was not made.

(5) Where an award is vacated and the time within which the agreement required the award to be made has not expired the court may, in its discretion, direct a rehearing by the arbitrators.

(b) The United States district court for the district wherein an award was made that was issued pursuant to section 580 of title 5 may make an order vacating the award upon the application of a person, other than a party to the arbitration, who is adversely affected or aggrieved by the award, if the use of arbitration or the award is clearly inconsistent with the factors set forth in section 572 of title 5.

9 U.S.C. § 11

§ 11. Same; modification or correction; grounds; order

In either of the following cases the United States court in and for the district wherein the award was made may make an order modifying or correcting the award upon the application of any party to the arbitration—

(a) Where there was an evident material miscalculation of figures or an evident material mistake in the description of any person, thing, or property referred to in the award.

(b) Where the arbitrators have awarded upon a matter not submitted to them, unless it is a matter not affecting the merits of the decision upon the matter submitted.

(c) Where the award is imperfect in matter of form not affecting the merits of the controversy.

The order may modify and correct the award, so as to effect the intent thereof and promote justice between the parties.

9 U.S.C. § 12

§ 12. Notice of motions to vacate or modify; service; stay of proceedings

Notice of a motion to vacate, modify, or correct an award must be served upon the adverse party or his attorney within three months after the award is filed or delivered. If the adverse party is a resident of the district within which the award was made, such service shall be made upon the adverse party or his attorney as prescribed by law for service of notice of motion in an action in the same court. If the adverse party shall be a nonresident then the notice of the application shall be served by the marshal of any district within which the adverse party may be found in like manner as other process of the court. For the purposes of the motion any judge who might make an order to stay the proceedings in an action brought in the same court may make an order, to be served with the notice of motion, staying the proceedings of the adverse party to enforce the award.

28 U.S.C. § 1254

§ 1254. Courts of appeals; certiorari; certified questions

Cases in the courts of appeals may be reviewed by the Supreme Court by the following methods:

(1) By writ of certiorari granted upon the petition of any party to any civil or criminal case, before or after rendition of judgment or decree;

(2) By certification at any time by a court of appeals of any question of law in any civil or criminal case as to which instructions are desired, and upon such certification the Supreme Court may give binding instructions or require the entire record to be sent up for decision of the entire matter in controversy.

28 U.S.C. § 1257(a)

§ 1257. State courts; certiorari

(a) Final judgments or decrees rendered by the highest court of a State in which a decision could be had, may be reviewed by the Supreme Court by writ of certiorari where the validity of a treaty or statute of the United States is drawn in question or where the validity of a statute of any State is drawn in question on the ground of its being repugnant to the Constitution, treaties, or laws of the United States, or where any title, right, privilege, or immunity is specially set up or claimed under the Constitution or the treaties or statutes of, or any commission held or authority exercised under, the United States.

28 U.S.C. § 1291

§ 1291. Final decisions of district courts

The courts of appeals (other than the United States Court of Appeals for the Federal Circuit) shall have jurisdiction of appeals from all final decisions of the district courts of the United States, the United States District Court for the District of the Canal Zone, the District Court of Guam, and the District Court of the Virgin Islands, except where a direct review may be had in the Supreme Court. The jurisdiction of the United States Court of Appeals for the Federal Circuit shall be limited to the jurisdiction described in sections 1292(c) and (d) and 1295 of this title.

28 U.S.C. § 1338

§ 1338.Patents, plant variety protection, copyrights, mask works, trade-marks, and unfair competition

(a) The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trade-marks. Such jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases.

(b) The district courts shall have original jurisdiction of any civil action asserting a claim of unfair competition when joined with a substantial and related claim under the copyright, patent, plant variety protection or trade-mark laws.

(c) Subsections (a) and (b) apply to exclusive rights in mask works under chapter 9 of title 17 to the same extent as such subsections apply to copyrights.

28 U.S.C. § 1738

§ 1738. State and Territorial statutes and judicial proceedings; full faith and credit

The Acts of the legislature of any State, Territory, or Possession of the United States, or copies thereof, shall be authenticated by affixing the seal of such State, Territory or Possession thereto.

The records and judicial proceedings of any court of any such State, Territory or Possession, or copies thereof, shall be proved or admitted in other courts within the United States and its Territories and Possessions by the attestation of the clerk and seal of the court annexed, if a seal exists, together with a certificate of a judge of the court that the said attestation is in proper form.

Such Acts, records and judicial proceedings or copies thereof, so authenticated, shall have the same full faith and credit in every court within the United States and its Territories and Possessions as they have by law or usage in the courts of such State, Territory or Possession from which they are taken.

Supreme Court, U.S.
FILED
MAY 20 1994
OFFICE OF THE CLERK

No. 93-1645

IN THE

Supreme Court of the United States

OCTOBER TERM, 1993

ADVANCED MICRO DEVICES, INC.,
Petitioner,

v.

INTEL CORPORATION,
Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF FOR THE RESPONDENT IN OPPOSITION

C. RANDALL BAIN,
Counsel of Record
MICHAEL F. BAILEY
JOEL W. NOMKIN
DAN L. BAGATELL
BROWN & BAIN, P.A.
2901 North Central Avenue
Post Office Box 400
Phoenix, Arizona 85001
(602) 351-8000

F. THOMAS DUNLAP, JR.
INTEL CORPORATION
2200 Mission College Boulevard
Post Office Box 58119
Santa Clara, California 95052
(408) 765-8080

JAMES J. ELACQUA
ARNOLD, WHITE & DURKEE
750 Bering Drive
Post Office Box 4433
Houston, Texas 77210
(713) 787-1400

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QUESTIONS PRESENTED

This is an action for copyright infringement within the exclusive jurisdiction of the federal courts under 28 U.S.C. § 1338(a). Invoking *Colorado River Water Conservation District v. United States*, 424 U.S. 800 (1976), the district court stayed the action pending a state court review of an award in a contract arbitration between the parties. The award was rendered after this suit was brought and purported to give petitioner—as a defense to this suit—a retroactive license to copy respondent's intellectual property. The court of appeals held that the stay was immediately appealable under *Moses H. Cone Memorial Hospital v. Mercury Construction Corp.*, 460 U.S. 1 (1982), a point that petitioner had conceded in its brief. On the merits, the court of appeals again followed *Moses Cone* and reversed the stay because it did not satisfy the requirements for *Colorado River* abstention. The questions presented are:

1. Whether a *Colorado River* stay is immediately appealable, both as a final order and as a collateral order, as held in *Moses Cone*, 460 U.S. at 8-13.

2. Whether the court of appeals correctly determined that the stay was improper where there was substantial doubt that the state court proceeding would completely resolve the issues between the parties, as required by *Moses Cone*, 460 U.S. at 28, and where the stay would have deferred to the state court the determination of an issue within the exclusive jurisdiction of the federal courts.

3. Whether the Federal Arbitration Act, 9 U.S.C. § 3, required a stay of respondent's action where the parties did not agree to arbitrate copyright issues and, before the stay was entered, the arbitrator had rendered his award.

4. Whether "comity" or "finality" justifies a stay in favor of state proceedings where the requirements of the *Colorado River* doctrine are not met and no state judgment is entitled to preclusive effect under state law.

RULE 29.1 STATEMENT

Intel Corporation has no parent or subsidiary corporations required to be listed under Rule 29.1 of this Court.

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BRIEF FOR THE RESPONDENT IN OPPOSITION

Respondent Intel Corporation ("Intel") respectfully requests that this Court deny the petition for a writ of certiorari filed by petitioner Advanced Micro Devices, Inc. ("AMD").

STATUTES INVOLVED

In addition to the statutes set forth at Pet. App. 66a-70a, Section 106 of the Copyright Act, 17 U.S.C. § 106, is relevant to this case. That statute is reproduced in the Appendix to this brief.

STATEMENT OF THE CASE

Intel and AMD are companies that design, manufacture and sell microprocessors and other products. In October 1991, Intel commenced this federal copyright action after AMD admitted both that it had copied the copyrighted microcode embedded in Intel's highly successful 80386 family of microprocessors, and that it had sold imitation 80386 microprocessors that embodied Intel's code. AMD has interposed various defenses, including a defense that in February 1992, *after* this suit was filed, the arbitrator of a dispute arising under a technology-sharing contract between the parties retroactively awarded AMD a license to copy Intel microcode. Intel sought summary dismissal of that defense on the ground that the arbitration agreement did not empower, and Section 106 of the Copyright Act did not allow, the arbitrator to invent such a remedy in light of his own finding that AMD had no contractual right to receive any part of the 80386 technology. Despite exclusive federal jurisdiction and the fact that the California proceedings may not resolve the federal suit, the district court stayed the entire federal lawsuit indefinitely to await the completion of appellate review of the award by the California courts.

The question posed by the petition is whether the court of appeals properly reversed the stay in these circumstances. The

background and history of the arbitration and this case are as follows:

1. In February 1982, Intel and AMD entered into a technology-sharing contract under which each company could earn the rights to manufacture and sell products developed by the other. To earn such rights, each company had to provide to the other "manufacturing packages" for products that the other elected to manufacture. Over time, AMD elected to produce a number of Intel products, but failed to develop products of its own that Intel wished to produce. Although AMD desired the right to manufacture Intel's hugely successful 80386 microprocessor, it did not earn that right under the contract. [Pet. App. 2a, 44a][1]

In April 1987, AMD compelled arbitration proceedings, claiming, among other things, that Intel had breached the contract by declining to elect to manufacture AMD products. AMD specifically claimed contractual rights to Intel's 80386 family of microprocessors. As part of the reference to arbitration, the parties stipulated that the arbitrator had discretion only to award remedies within his jurisdiction and that all such remedies had to be within the scope of the parties' contract. [Pet. App. 2a-3a, 44a-45a]

After years of proceedings, the arbitrator ruled that AMD had earned no rights to the 80386 under the contract, because Intel was not obliged to accept any AMD products. [Pet. App. 3a, 45a][2] AMD nevertheless had proceeded in the interim to

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[1] The contract terminated no later than May 1988. [Arb. Dec. and Award with Resp. to Liability, Oct. 11, 1990, at 56]

[2] Although the arbitrator found that Intel had no obligation to acquire AMD products and that Intel had sound business reasons for rejecting each part offered by AMD, he also ruled that Intel had breached an implied covenant of good faith and fair dealing by failing to disclose its

develop an imitation of Intel's 80386, which it began to market in late 1990. After AMD admitted that it had copied and used Intel's microcode in its imitation 80386, thereby *prima facie* infringing Intel's copyright on that microcode, Intel brought this federal copyright infringement action in October 1991. [Pet. App. 3a-4a]

2. Several months after Intel brought suit, the arbitrator issued his award. [Pet. App. 38a-42a] In the award decision, the arbitrator confirmed his interlocutory conclusion that AMD was not entitled to the 80386 under the technology-sharing contract. [*See* Arb. Mem. of Dec. re Issues in Award, Feb. 24, 1992, at 6 ("AMD could not obtain the rights to the 386 under the Contract")] Nonetheless, because he desired to end what he perceived as "incessant litigation" between the parties, the arbitrator awarded AMD a "license" in whatever intellectual property of Intel that AMD may have used in its imitation of the 80386. [*Id.* at 16, 85-86][3] The arbitrator specifically stated

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intention not to acquire any further parts from AMD. The arbitrator found, however, that AMD suffered no measurable damages from that breach because it had not offered Intel any products thereafter and because both parties knew that AMD would have no products to offer in the foreseeable future. [Pet. App. 45a]

[3] Although suggesting that the license award was a remedy for Intel's breach of the covenant of good faith and fair dealing [*see* note 2], the arbitrator recognized that the award was a non-contractual remedy. Thus, he explained that *except* for the award of the license, he had tried to follow the law:

> Otherwise, any arbitration proceeding can turn into a kangaroo court. For these reasons this Arbitrator in reaching the decisions on the issues of the award has insofar as possible followed through the factual thicket of this case that path limned by the rules of law.
>
> In only one respect has the Arbitrator departed from a conventional approach to relief in this case: in Paragraphs

that the license was designed to end *this* federal action in AMD's favor. [*See* Pet. App. 39a-40a ("The intent of this [license] is to provide a complete and dispositive defense to AMD as to the Intel claims against AMD regarding the technology and intellectual property used in AMD's current versions of the 80386 in such lawsuits as [this copyright action]")][4]

The arbitrator's license gave AMD a retroactive award of immunity for its infringement of Intel's proprietary rights in the 80386, even though that infringement occurred *after* the technology-sharing contract had expired. [Pet. App. 39a-40a]. But the issue whether AMD had any right, after the termination of the agreement, to use Intel's intellectual property in copying Intel products had not been referred to arbitration, nor had any evidence been offered on the subject in the arbitration. Likewise, the parties had not briefed or argued whether the arbitrator could create such rights by fiat in the face of Section 106 of the Copyright Act, which provides that only the copyright holder may authorize the copying and distribution of a copyrighted work.

> 5 and 6 of the Award he has in effect put an end to the incessant litigation between AMD and Intel over the 386 (whether the Intel part or the reverse engineered AMD part) and has in effect allowed AMD to market its part free from Intel's harassment over the alleged misappropriation of Intel's alleged intellectual property rights.

[Arb. Mem. of Dec. re Issues in Award, Feb. 24, 1992, at 16-17 (footnotes omitted)]

[4] In an initial draft of the award circulated to the parties, the arbitrator purported to enjoin Intel's further prosecution of this suit. After AMD advised that he lacked such power [*see General Atomic Co. v. Felter*, 434 U.S. 12 (1977); *Donovan v. City of Dallas*, 377 U.S. 408 (1964)], the arbitrator revised the award to grant AMD a license that was expressly intended to serve as a dispositive defense to this suit. [Pet. App. 5a n.2]

3. AMD then petitioned to confirm the arbitration award in the California Superior Court. Intel responded and filed a cross-motion to correct the award by striking the "license" grant. The Superior Court confirmed the award [Pet. App. 25a-37a], but on appeal, the California Court of Appeal modified the award by deleting the purported license on the ground that the arbitrator had exceeded his authority [Pet. App. 43a-54a]. The case is now on review before the California Supreme Court. [*See* Pet. App. 55a] Under California law, the arbitration award cannot be enforced, and can have no preclusive effect, if ever, until all possible appeals are exhausted. *See Eichman v. Fotomat Corp.*, 759 F.2d 1434, 1439 (9th Cir. 1985).

4. After the California Superior Court had confirmed the arbitration award, but before the California Court of Appeal had corrected it, AMD added to its answer in this copyright action an allegation that the arbitration award constituted a complete defense. AMD also applied for a stay of all proceedings in this action during the California courts' arbitration review proceedings. AMD's stay request relied on the "rationale" of this Court's decision in *Colorado River Water Conservation District v. United States*, 424 U.S. 800 (1976), and asked the district court to hold that the state courts' ultimate resolution would be binding.[5] AMD's motion, however, recognized that "the *Colorado River* doctrine is not strictly applicable," and cited Ninth Circuit authority for the proposition that "the *Colorado River* doctrine is not applicable to copyright claims," over which state courts have no jurisdiction. [Def. AMD's Am. & Suppl. Mem. in Supp. of its Mot. for a Stay, July 20, 1992, at 11 & n.6]

---

[5] In *Colorado River*, this Court held that in certain "exceptional" circumstances, considerations of "wise judicial administration" may counsel staying a federal court action when parallel proceedings are pending in a state court with concurrent jurisdiction. 424 U.S. at 817-18. The requirements for a *Colorado River* stay are discussed in Section II, below.

Intel opposed the requested stay and moved for partial summary judgment dismissing AMD's license defense on the ground that the arbitrator's award violated Section 106 of the Copyright Act and, moreover, could have no preclusive effect on this action under California law. [Intel's Mem. in Supp. of Its Cross Mot. for Part. Summ. Judg. and Opp. to AMD's Mots. for Summ. Judg. or for a Stay, Aug. 4, 1992]

The district court denied Intel's summary judgment motion without prejudice and granted the stay, invoking *Colorado River* as authority. Although the court conceded that it harbored its own "reservations" about the arbitrator's actions [Pet. App. 19a], it held that "given the unique facts of this case and based on guidance from *Colorado River*, a stay of the federal case is appropriate as an exceptional circumstance under a policy of wise judicial administration" [Pet. App. 23a]. The district court expressly predicated the stay on its conclusion that the state court arbitration review proceedings would have collateral estoppel effect on "whether AMD has the license rights to the 386." [Pet. App. 20a]

5. On appeal, a unanimous panel of the Ninth Circuit reversed the stay. The court of appeals first noted that it had jurisdiction to hear the appeal under *Moses H. Cone Memorial Hospital v. Mercury Construction Corp.*, 460 U.S. 1 (1983)—a point conceded by AMD in its answering brief. [Pet. App. 5a][6] On the merits, the court observed this Court's caution that the *Colorado River* doctrine permits only a "narrow" exception to the obligation of federal courts to decide cases within their jurisdiction. [Pet. App. 6a (citing *Moses Cone*, 460 U.S. at 17)] Quoting *Moses Cone* and citing decisions from various courts of appeals, the court held that this exception does not apply where there exists "substantial doubt as to whether the

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[6] AMD did not brief its challenge to the court of appeals's jurisdiction until it sought rehearing.

state proceedings will resolve the federal action . . . ." [Pet. App. 7a-8a & n.4] Applying that standard, the court found the stay improper:

> The concurrent state court proceedings will resolve all the issues in this action *only* if the arbitration award is confirmed and if the state court's resolution of the copyright challenge to the award is deemed to have collateral estoppel effect in federal court. In contrast, if the state court overturns the arbitration award, then the case will return to federal court for the adjudication of the underlying copyright claims (having been delayed for the entire period of the stay). A consideration of these contingencies raises the substantial doubt sufficient to preclude a *Colorado River* stay.

[Pet. App. 8a (footnotes omitted)]

Although the court's finding of substantial doubt made it unnecessary to look further in reversing the stay, the court also noted that "federal courts are particularly reluctant to relinquish jurisdiction when a case involves federal law issues" and that "[a] stay would be especially difficult to justify in a case such as this one, where the copyright claims are subject to exclusive federal jurisdiction." [Pet. App. 8a n.7] Finally, the court rejected AMD's contentions that the Federal Arbitration Act, 9 U.S.C. § 3, and the "full faith and credit" statute, 28 U.S.C. § 1738, mandated a stay. [Pet. App. 9a-12a][7]

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[7] Because "the possibility that the award will be reversed through the state appellate review process [was] sufficient to raise a substantial doubt as to whether the state proceedings will end the [federal] litigation," the court of appeals declined to resolve whether a final state court confirmation of the arbitrator's decision would have preclusive effect. [Pet. App. 8a n.5]

AMD sought rehearing and rehearing en banc. The panel unanimously denied the petition for rehearing, and no judge on the entire court endorsed AMD's suggestion for rehearing en banc. [Pet. App. 56a] Both the Ninth Circuit and Justice O'Connor, acting in her capacity as Circuit Justice, summarily denied AMD's request for a stay or recall of the mandate pending a petition for certiorari. [Pet. App. 57a, 59a] After a delay of a year-and-a-half, the district court presumably will now proceed to resolve Intel's pending summary judgment motion.

REASONS FOR DENYING THE PETITION

The issues presented by the petition concern whether a district court may enter, and a court of appeals may review, a stay pending completion of state court proceedings, where: the stayed federal action is within the exclusive jurisdiction of the federal courts; the state proceedings involve review of an arbitration award rendered *after* the federal action was filed; and the purpose of the stay (according to the district court) was to give collateral estoppel effect to the state proceedings on an issue that could dispose of the federal action. The appealability and propriety of a stay in these circumstances do not merit the attention of this Court for several reasons.

1. The issues are likely to become moot before this Court could decide them. The stay was to remain in effect only during the pendency of the state courts' review of the arbitrator's award. The California Supreme Court has accepted jurisdiction over that issue, and briefing is complete. Its decision likely will be rendered before this Court could grant plenary consideration.

2. The issues are not recurring. The district court's stay order stressed the "unique facts of this case" [Pet. App. 23a], and AMD cites not a single appellate decision arising from like factual circumstances or presenting the same issues. Moreover, because a stay would be pointless unless the state court judgment will be preclusive in this action, this Court could not reinstate the stay without determining whether the final decision

of the California courts would be entitled to collateral estoppel effect. A decision on that issue would require this Court to resolve a fact-bound question of California law that was not decided by the court of appeals.

3. The decision of the court of appeals was correct both in exercising appellate jurisdiction over the stay and reversing it.

a. On the issue of reviewability, while AMD quarrels with the Ninth Circuit's "perfunctory" analysis, a brief citation to *Moses Cone* was all that was necessary, not only because AMD had conceded appellate jurisdiction, but also because *Moses Cone* expressly held that a *Colorado River* stay is appealable alternatively as a collateral order or as a final order. 460 U.S. at 8-13.

b. On the merits, *Moses Cone* instructed that "it would be a serious abuse of discretion" to grant a stay "[i]f there is any substantial doubt" that the state proceedings "will be an adequate vehicle for the complete and prompt resolution of the issues between the parties." *Id.* at 28. Here, the California Supreme Court's ruling will *not* resolve this action if (i) it affirms the lower California appellate court's decision to strike the arbitrator's license award, *or* (ii) it reinstates the award, but its decision is not deemed to have collateral estoppel effect. AMD does not dispute that there is at least substantial doubt on these issues. In any event, the Ninth Circuit's conclusion that substantial doubt exists is a case-specific determination that ought to be of no interest to this Court.

c. AMD also contends that the reversal of the stay offended the Federal Arbitration Act and principles of "finality" and "comity." But AMD had no right to a stay under the Arbitration Act because Intel's copyright claim is not subject to any arbitration agreement and the validity of the arbitrator's license award is a matter for judicial, not arbitral, resolution. Similarly, "comity" cannot justify a stay where the requirements of the *Colorado River* doctrine are not satisfied, and "finality"

cannot do so where the state proceedings are not final or entitled to preclusive effect under state law.

4. The Ninth Circuit's resolution of these issues does not create any circuit conflict. AMD cites no decision that would have rejected appellate jurisdiction in these circumstances or sanctioned a *Colorado River* stay where, as here, the federal action is within the exclusive jurisdiction of the federal courts, the federal suit was filed before the state court proceedings began, and the overlapping question turns in part on federal law.

I. THE NINTH CIRCUIT CORRECTLY EXERCISED APPELLATE JURISDICTION

AMD contests the jurisdiction of the court of appeals to review the *Colorado River* stay entered by the district court. [Pet. 10-15] AMD even chides the court of appeals for asserting its jurisdiction "perfunctorily" and "without analysis." [Pet. 6] But AMD's brief in the Ninth Circuit explicitly acknowledged that the stay "[wa]s appealable pursuant to 28 U.S.C. § 1291." [AMD C.A. Br. 1] There was thus no reason for the court of appeals to discuss jurisdiction at length. Indeed, because jurisdiction was uncontested and the Ninth Circuit did not detail its reasoning on the issue, there is no risk that the court's "perfunctory" acceptance of jurisdiction will engender confusion or inconsistency among the circuits. In any event, AMD's original concession of jurisdiction was correct and the circuit conflict it now alleges does not exist.

A. A Colorado River *Stay is an Appealable Order*

This Court's jurisdictional holding in *Moses Cone* rested on two alternative bases, each of which independently justified the exercise of appellate jurisdiction in this case.

1. The petition essentially ignores the holding in *Moses Cone* [460 U.S. at 11-13] that *Colorado River* stay orders are immediately appealable under the collateral order doctrine of *Cohen v. Beneficial Industrial Loan Corp.*, 337 U.S. 541

(1949). *See also Gulfstream Aerospace Corp. v. Mayacamas Corp.*, 485 U.S. 271, 276 (1988) (reiterating that "a district court order granting a stay of litigation pursuant to *Colorado River* meets each of the three requirements of the collateral-order doctrine and therefore is appealable under [28 U.S.C.] § 1291"). Under that doctrine's familiar three-pronged test, an order is immediately appealable if it "conclusively determine[s] the disputed question, resolve[s] an important issue completely separate from the merits of the action, and . . . [is] effectively unreviewable on appeal from a final judgment." *Moses Cone*, 460 U.S. at 11-12 (quoting *Coopers & Lybrand v. Livesay*, 437 U.S. 463, 468 (1978)).

As to the first criterion, here, as in *Moses Cone*, there is no reason to suppose that the district court contemplated any reconsideration of its decision to defer to the outcome of the state proceedings. *See id.* at 12-13. Its decision to await, and then accord preclusive effect to, the final ruling of the California courts was unquestionably its "final word on the subject." *See id.* at 12 n.14. As to the second criterion, *Moses Cone*'s holding that "[a]n order that amounts to a refusal to adjudicate the merits plainly presents an important issue separate from the merits" [*id.* at 12] applies equally here. Finally, because the stay was to expire upon completion of the California courts' review proceedings, the stay would have been moot—and hence unreviewable—on appeal from the final judgment in this action.[8]

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[8] Moreover, as in *Moses Cone*, if the state courts uphold the arbitration award, the district court has stated its intention to give that decision collateral estoppel effect, and to enter judgment for AMD on the ground that it has "license rights to the 386." [Pet. App. 20a] On appeal from such a final judgment, the court of appeals would not be able to review the merits of whether the license conferred on AMD by the arbitrator violated the Copyright Act; instead, the court would be limited to review of whether the requirements for collateral estoppel were met. And

2. The Court in *Moses Cone* also found an independent basis for appellate jurisdiction: a *Colorado River* stay order is final because, by definition, "the object of the stay is to require all or an essential part of the federal suit to be litigated in a state forum." *Id.* at 10 n.11. Such a stay necessarily puts the plaintiff "effectively out of court" and "amounts to a dismissal of the suit." *Id.* at 9-10.[9]

AMD argues, however, that because the district court in this case anticipated holding further proceedings, its action was not tantamount to dismissal and hence no appellate jurisdiction existed. AMD ignores, however, that *Colorado River* stays necessarily assume that the state proceedings will be *fully* dispositive of the issues in the federal action:

> [a]n order granting a *Colorado River* stay . . . "necessarily contemplates that the federal court will have nothing further to do in resolving any substantive part of the case" because a district court may enter such an order only if it has full confidence that the parallel state proceeding will "be an adequate vehicle for the complete and prompt resolution of the issues between the parties."

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if, contrary to Intel's position [see Section V, below], the court of appeals were to conclude that collateral estoppel was appropriate, the issue whether AMD infringed Intel's copyright in the 80386 would be insulated from later federal appellate review. *See Moses Cone*, 460 U.S. at 12 (stay order was unreviewable if not immediately appealable because of preclusive effect of state court determination).

[9] In *Moses Cone*, the state and federal suits turned on the identical issue. This Court noted that, due to the stay, the state court judgment would issue first and have res judicata effect. Thus, the federal suit was effectively over, even though it had not been formally dismissed. 460 U.S. at 8-10.

Gulfstream Aerospace, 485 U.S. at 277 (quoting *Moses Cone*, 460 U.S. at 28). Indeed, the very reason that the district court granted the stay here was so that it would have nothing further to do in resolving an essential part of this copyright action: "whether AMD has the license rights to the 386." [Pet. App. 20a] The district court explicitly intended to give the California courts' resolution of that issue collateral estoppel effect, just as the district court in *Moses Cone* intended to give res judicata effect to the state court proceedings at issue there. *See id.*[10]

Intel disagrees with the district court's conclusion that collateral estoppel would apply in these circumstances, and, for that reason and others, contends that the stay should not have been entered. *See* Sections II and V, below. But the district court's error in concluding that the state proceedings would be dispositive cannot shield its order from appellate review. To conclude otherwise would yield the anomalous and indefensible result that erroneous stay orders in these circumstances are not appealable, but correct stay orders are.

B. The Ninth Circuit's Exercise of Jurisdiction Does Not Create a Circuit Conflict

Contrary to AMD's contention [Pet. 10], the Ninth Circuit's acceptance of jurisdiction does not conflict at all, let alone create a "direct conflict," with any of the cases from other circuits on which AMD relies. None of those cases involved *Colorado River* stay orders like the one here, and none of them would compel the refusal of appellate jurisdiction in this case.

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[10] Although AMD now stresses the prospect of further proceedings in the district court, AMD took a far different tack in requesting that the Ninth Circuit uphold the stay. [*See* AMD C.A. Br. 8 ("the stay is proper as a matter of 'wise judicial administration' since the state court judgment, when confirmed on appeal, will provide a complete defense to the federal copyright action")].

Lunde v. Helms, 898 F.2d 1343 (8th Cir.), *cert. denied*, 498 U.S. 897 (1990), does not even mention *Colorado River*. Accordingly, it hardly suggests that *Colorado River* stays such as the one in this case are not appealable. Nor does *Lunde* consider or apply the collateral order doctrine. Further, the district court order in that case was tentative because it "le[ft] open the possibility that the stay could be vacated if plaintiff demonstrated that her federal constitutional or statutory rights would be infringed by or cannot be addressed in the on-going state proceedings." *Id.* at 1345. The district court in this case did not leave open such a possibility.[11]

Pioneer Properties, Inc. v. Martin, 776 F.2d 888 (10th Cir. 1985), concerned a stay pending *arbitration*, not a *Colorado River* stay. *Id.* at 891. Unlike here, where the district court assumed that the state proceedings would have preclusive effect on whether AMD has license rights to the 80386, the plaintiff in *Pioneer Properties* was free to return to federal court to seek at least limited review of the arbitration award. *Id.* Moreover,

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[11] The other Eighth Circuit decision AMD cites, *Boushel v. Toro Co.*, 985 F.2d 406 (8th Cir. 1993), is equally inapposite. The federal and foreign claims there were not completely overlapping, and the stay order (as in *Lunde*) "specifically stated that if the [plaintiffs] were unable to obtain complete relief in the [foreign] action, they are free to continue the federal action." *Id.* at 408-09. For this and other reasons the Eighth Circuit expressly *rejected* the appellant's effort to analogize the stay to a *Colorado River* stay. *Id.* at 409. Moreover, the collateral order doctrine was inapplicable because the stay order there (unlike here) explicitly was not the district court's final word on whether the federal action would proceed, and thus did not conclusively determine the disputed question. *Id.* at 410.

Pioneer Properties never mentioned the collateral order doctrine.[12]

Crotty v. City of Chicago Heights, 857 F.2d 1170 (7th Cir. 1988), also involved a completely different context. The "stay" there was not a true stay at all, for it allowed discovery to proceed in the federal case on the plaintiffs' RICO claim. *Id.* at 1174. Only because of those "unusual facts" was the order held unappealable. *Id.* Moreover, in reaching its conclusion, the court did not consider the collateral order doctrine.[13]

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[12] AMD also cites the Tenth Circuit's unpublished decision in *Hinkle v. Delta Dental Plan*, No. 92-6178, 1993 WL 141089 (disposition recorded at 992 F.2d 1223 (Table)). Unlike here, the stay in *Hinkle* was in deference to an administrative proceeding involving issues that did not overlap with the federal litigation. No determination in the administrative proceedings could have barred later consideration of the plaintiff's federal claims. Moreover, *Hinkle* was decided at a time when, under former Tenth Circuit Rule 36.3 (now suspended), unpublished opinions were to be accorded no precedential value. Accordingly, it can hardly establish a circuit split of concern to this Court.

[13] *Crotty* appears to misread *Moses Cone*. As this Court made clear in *Gulfstream Aerospace*, 485 U.S. at 276-77, the Court's holding in *Moses Cone* that *Colorado River* stays are immediately appealable under the collateral order doctrine was *independent* of its holding that such stays are final orders because they effectively put the plaintiff out of federal court. *Crotty* curiously mentions the collateral order doctrine yet never applies it, evidently lumping this Court's two independent holdings into one. *See* 857 F.2d at 1173-74. This Court should not correct the Seventh Circuit's error in this case, however. Other panels of that circuit have recognized the independence of this Court's holding regarding the collateral order doctrine. *See Interstate Material Corp. v. City of Chicago*, 847 F.2d 1285, 1287-88 (7th Cir. 1988) (order granting stay pursuant to *Colorado River* is appealable under collateral order doctrine). *Crotty* may conflict with *Interstate Material*, but "[i]t is primarily the task of a Court of Appeals to reconcile its internal difficulties." *Wisniewski v. United States*, 353 U.S. 901, 902 (1957).

II. THE NINTH CIRCUIT CORRECTLY REVERSED THE STAY

AMD also asserts [Pet. 15-21] that the court of appeals erred on the merits in reversing the district court's application of the *Colorado River* doctrine. But the court of appeals was correct; it is AMD, not the Ninth Circuit, that has misunderstood this Court's precedents.

A. Colorado River *Stays Are Proper Only Where Federal Courts Have Full Confidence that the State Proceeding Will Completely Resolve the Federal Lawsuit*

This Court has long recognized that "'the pendency of an action in the state court is no bar to proceedings concerning the same matter in the Federal court having jurisdiction.'" *Colorado River*, 424 U.S. at 817 (quoting *McClellan v. Carland*, 217 U.S. 268, 282 (1910)). Federal courts have a "virtually unflagging obligation . . . to exercise the jurisdiction given them." *Id.* Accordingly, stays in deference to parallel state proceedings based on "wise judicial administration" are appropriate only in "exceptional" circumstances. *Id.* at 817-18; *see also Moses Cone*, 460 U.S. at 16, 19 (describing the *Colorado River* test as an "exceptional-circumstances test").

For these reasons, this Court has narrowly circumscribed the permissible range of *Colorado River* stays. As a threshold matter, "a district court may enter [a *Colorado River* stay] only if it has full confidence that the parallel state proceeding will 'be an adequate vehicle for the complete and prompt resolution of the issues between the parties.'" *Gulfstream Aerospace*, 485 U.S. at 277 (quoting *Moses Cone*, 460 U.S. at 28).

Here, the Ninth Circuit correctly concluded that there was substantial doubt whether the California courts' review of the arbitration award will completely and promptly resolve Intel's federal copyright suit. As the court of appeals observed [Pet. App. 8a], the California proceedings would resolve the federal

copyright claim *only* if the California Supreme Court reversed the judgment of the California Court of Appeal *and* if the resulting judgment in favor of AMD were accorded collateral estoppel effect. At minimum, that outcome is substantially doubtful.[14]

AMD does not and cannot contest the substantial doubt as to whether the state proceedings will resolve Intel's federal claim.[15] Rather, AMD complains that the court of appeals employed an incorrect legal standard by according dispositive weight to one of numerous stay-related factors. [Pet. 15-17] AMD errs because it fails to recognize that the "complete and prompt determination" rule is a *threshold inquiry,* not part of a balancing test. As this Court put it in *Moses Cone,* "[i]f there is any substantial doubt" whether a state proceeding "will be an adequate vehicle for the complete and prompt resolution of the issues between the parties . . . it would be a serious abuse of discretion to grant the stay or dismissal at all." *Moses Cone,* 460 U.S. at 28; *see also Gulfstream Aerospace,* 485 U.S. at 277

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[14] As the court of appeals noted, if Intel prevails in the California proceedings, the federal case will not be resolved because AMD asserts other defenses. [Pet. App. 8a & n.6] The court of appeals considered the probability of an Intel victory in the California proceedings so substantial that it found no need to resolve whether the district court correctly determined that a victory by AMD would have collateral estoppel effect. [Pet. App. 8a n.5]

As discussed in Section V below, the district court's collateral estoppel analysis was incorrect because, among other things, AMD's entitlement to a license award was neither actually litigated before the arbitrator nor necessary for him to reach. That issue, however, should be of no interest to this Court because it is a record-dependent question that turns on state preclusion law.

[15] AMD evidently recognizes that even if the court of appeals had erred in making that case-specific determination, that error would be of no interest to this Court.

(endorsing same principle). Thus, a stay *cannot* qualify as a proper *Colorado River* stay unless the state proceeding will surely resolve the federal lawsuit.

In the end, AMD's real complaint is not that the Ninth Circuit departed from *Moses Cone,* for the "complete and prompt determination" rule dictated the Ninth Circuit's reversal of the stay. Rather, AMD's real complaint is that *Moses Cone* is too narrow, and that this Court should write a new and broader abstention doctrine that permits an entire federal suit to be stayed so that state courts can decide one potentially overlapping issue that may or may not dispose of the federal suit. In so doing, AMD seeks to turn abstention from a rare exception into a normal practice. Yet, as this Court admonished in *Moses Cone,* it is not the job of the federal courts to search for reasons *not* to exercise the jurisdiction accorded to them:

> [O]ur task in cases such as this is not to find some substantial reason for the *exercise* of federal jurisdiction by the district court; rather, the task is to ascertain whether there exist "exceptional" circumstances, the "clearest of justifications," that can suffice under *Colorado River* to justify the *surrender* of that jurisdiction.

460 U.S. at 25-26 (emphasis in original).

B. No Other Exceptional Circumstances Clearly Justified the District Court's Refusal to Adjudicate this Case

Apart from the "complete and prompt determination" rule, other circumstances of this case required reversal of the district court's stay under the clear and consistent precedent of this Court and the courts of appeals. For these independent reasons, as to which there is no circuit conflict, certiorari is inappropriate.

First and foremost, as the court of appeals observed in this case, "federal courts are particularly reluctant to relinquish

jurisdiction when a case involves federal law issues." [Pet. App. 9a n.7] That observation was compelled by this Court's directive in *Moses Cone* that "the presence of federal-law issues must always be a major consideration weighing against surrender." 460 U.S. at 26.[16] Despite that admonition, the district court relegated to the state courts the federal issue whether the arbitrator's award of 80386 rights to AMD violated 17 U.S.C. § 106, which provides that only the copyright holder may authorize the copying and distribution of a copyrighted work.

More than that, however, this copyright action is within the *exclusive* jurisdiction of the federal courts. 28 U.S.C. § 1338(a). Congress's establishment of exclusive federal jurisdiction leaves no doubt that federal policy is *not* to allow federal courts to withhold the exercise of their jurisdiction pending completion of state proceedings. For this reason, the courts of appeals routinely have held that federal district courts may not halt their proceedings where they possess exclusive jurisdiction.[17] Indeed, in lawyerly understatement, AMD conceded in

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[16] The federal issue in *Moses Cone* concerned the arbitrability of certain state law claims under the Federal Arbitration Act. This Court acknowledged that that issue was not of unique federal interest because "the federal courts' jurisdiction to enforce the Arbitration Act is concurrent with that of the state courts." 460 U.S. at 25. Nonetheless, the Court emphasized the presence of that issue in concluding that the district court's stay was an abuse of discretion. *Id.* at 23-26.

[17] *See Minucci v. Agrama*, 868 F.2d 1113, 1115 (9th Cir. 1989) (refusing to stay copyright claim; "[T]he district court has no discretion to stay proceedings as to claims within *exclusive* federal jurisdiction under the wise judicial administration exception."); *General Motors Corp. v. California Bd. of Equalization*, 815 F.2d 1305, 1308-09 (9th Cir. 1987) (Kennedy, J.) ("abstention would be inappropriate" because the case raised a federal (ERISA) issue and the action was "one over which the federal courts exercise exclusive jurisdiction"), *cert. denied*, 485 U.S. 941 (1988); *Medema v. Medema Builders, Inc.*, 854 F.2d 210, 215 (7th

the district court that the presence of exclusive federal jurisdiction in this case meant that the *Colorado River* doctrine was "not strictly applicable." [Def. AMD's Am. & Suppl. Mem. in Supp. of Its Mot. for a Stay, July 20, 1992, at 11][18]

Like the Ninth Circuit [Pet. App. 8a n.7], this Court need not decide whether some hypothetical extraordinary circumstance might ever justify a *Colorado River* stay where, as here, federal law provides the rule of decision on the merits and the action is within exclusive federal jurisdiction. In this case, *no* extraordinary circumstance discussed in this Court's *Colorado River* jurisprudence justifies a stay. As in *Moses Cone*, "[t]here was no assumption by either [the state court or federal court] of jurisdiction over any res or property, nor is there any contention that the federal forum was any less convenient to the parties than the state forum." 460 U.S. at 19. If exercising federal

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Cir. 1988) (overturning stay of federal securities claim; establishing bright-line rule against stays "where a plaintiff's nonfrivolous claim invokes the exclusive jurisdiction of federal courts"); *Andrea Theatres, Inc. v. Theatre Confections, Inc.*, 787 F.2d 59, 62 (2d Cir. 1986) (rejecting dismissal of antitrust claim; "abstention is clearly improper when a federal suit alleges claims within the exclusive jurisdiction of the federal courts"); *Kruse v. Snowshoe Co.*, 715 F.2d 120, 124 (4th Cir. 1983) (abstention inappropriate in case involving federal antitrust claims; "not only is the source of law . . . federal, but the district court has exclusive jurisdiction"), *cert. denied.*, 465 U.S. 1065 (1984). *See also Arizona v. San Carlos Apache Tribe*, 463 U.S. 545, 560 (1983) ("a dismissal or stay of the federal suits would have been improper if there was no jurisdiction in the concurrent state actions to adjudicate the claims at issue in the federal suits"); *Will v. Calvert Fire Ins. Co.*, 437 U.S. 655, 670, 673-76 (1978) (Brennan, J., dissenting).

[18] AMD seeks to lessen the significance of exclusive federal jurisdiction in this case by stressing that the district court merely stayed, and did not dismiss, this action. [Pet. 18] But "a stay is as much a refusal to exercise federal jurisdiction as a dismissal." *Moses Cone*, 460 U.S. at 28.

jurisdiction causes the state and federal proceedings to overlap somewhat, that is an acceptable consequence of the policy of the exclusive jurisdiction statute. *See Kruse v. Snowshoe Co.*, 715 F.2d 120, 124 (4th Cir. 1983) ("where the district court is presented with a claim over which it has exclusive jurisdiction, a policy opposite to the policy of avoidance of piecemeal litigation is present"), *cert. denied*, 465 U.S. 1065 (1984). In any event, concurrent proceedings will not waste substantial resources in this case. The issue that overlaps the state and federal proceedings (whether the arbitrator had authority to grant AMD a license to copy) is a straightforward question of law.[19]

As to the priority and progress of the proceedings [*see Colorado River*, 424 U.S. at 819], Intel filed this case before the arbitrator ever made his award and before that award came before the California courts. Furthermore, although the Superior Court had ruled at the time the district court issued its stay, the state law outcome was not final because two stages of appeal remained. The federal court proceedings were essentially as advanced: the issues were fully briefed and a partial summary judgment motion was pending.

C. The Ninth Circuit's Application of Colorado River Does Not Create a Circuit Conflict

Although AMD asserts that the decision below conflicts with decisions of the Third and Seventh Circuits [Pet. 17-21], the cases it cites do not suggest that those courts would have upheld the stay here.

In *Ingersoll-Rand Financial Corp. v. Callison*, 844 F.2d 133 (3d Cir. 1988), Jackson sued Ingersoll-Rand in state court under

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[19] As the Ninth Circuit observed, "the critical questions regarding enforceability appear to be primarily legal; they concern the jurisdiction of the arbitrator and the appropriateness of the remedy." [Pet. App. 12a]

the Securities Act of 1933, seeking to invalidate a promissory note. Ingersoll-Rand then brought a federal diversity action against Jackson to enforce the same promissory note. For two reasons entirely unrelated to the circumstances here, the Third Circuit held that it was appropriate to defer the federal proceedings pending outcome of the state action. First, the court observed that the Securities Act (under which the state action was filed) not only created concurrent jurisdiction in the federal and state courts, but also prohibited the removal of cases filed in state court. Accordingly, the court concluded that allowing Ingersoll-Rand to proceed with its diversity case would thwart Congress's command that securities plaintiffs be permitted to choose their forum. *Id.* at 137. Second, because the federal action was based on diversity of citizenship, the court emphasized that "state law and not federal will govern the merits of the collection action in either court." *Id.* In contrast, the issues in this action are governed by federal law, and Congress has mandated that federal courts have exclusive jurisdiction to enforce and interpret the Copyright Act. The difference in these statutory policies dictated the different results in *Ingersoll-Rand* and this case.[20]

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[20] AMD also cites *Neptune v. McCarthy*, 706 F. Supp. 958 (D. Mass. 1989). That district court case of course creates no conflict among the circuits, and does not discuss the complete resolution rule or the propriety of staying an exclusively federal claim so that a state court can rule on a defense turning on federal law.

Also irrelevant is AMD's suggestion that the Ninth Circuit's holding is inconsistent with the "well-established principle that a district court may stay proceedings of matters within the exclusive jurisdiction of the federal courts pending arbitration of other issues." [Pet. 20 & n.9 (citing *Levin v. Ripple Twist Mills, Inc.* 416 F. Supp. 876, 879-81 (E.D. Pa. 1976), *appeal dismissed*, 549 F.2d 795 (3d Cir. 1977) (Table); and *Hikers Indus. v. William Stuart Indus. (Far East)*, 640 F. Supp. 175, 178 (S.D.N.Y. 1986))] The cases AMD cites stand for the proposition that, under or by analogy to the Federal Arbitration Act, if Intel had agreed to

In *Day v. Union Mines Inc.*, 862 F.2d 652 (7th Cir. 1988), the court found that the state and federal proceedings were parallel—and thus a *Colorado River* stay was available—because "the district court judge could reasonably assume that the federal issue would be decided in the full course of the state litigation" and that, in any event, the proceedings had become perfectly parallel as of the time of the appeal due to amended pleadings. *Id.* at 657. Here, the federal and state proceedings are not parallel because a decision adverse to AMD in the state court proceedings would eliminate one of AMD's defenses but leave Intel's copyright claim unresolved.[21] Moreover, in upholding the stay in *Day*, the Seventh Circuit expressly noted that all the issues in the case turned on state law and that hearing the federal claim would be contrary to the policies of the diversity and removal statutes. *Id.* at 660. *Day* does not support AMD's suggestion that wise judicial administration requires staying an exclusively federal claim to let state courts decide a defense that turns on federal law, where there is no reasonable assurance that the proceedings will completely resolve the dispute between the parties.

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arbitrate the licensure issue, the district court properly could have stayed proceedings on Intel's suit pending arbitration. As discussed in the next section, Intel never agreed to any such arbitration, and the Arbitration Act has no application here.

[21] The other Seventh Circuit case cited by AMD is similarly inapposite for there, unlike here, "issues in [the] state and federal actions [were] substantially the same." *Interstate Material Corp. v. City of Chicago*, 847 F.2d 1285, 1288 (7th Cir. 1988).

III. THE FEDERAL ARBITRATION ACT DID NOT JUSTIFY THE STAY

AMD asserts [Pet. 21-25] that the decision of the court of appeals conflicts with the Federal Arbitration Act. It does not, and AMD fails to identify a circuit conflict or any important issue related to that Act suggesting the need for resolution by this Court.

Section 3 of the Arbitration Act, on which AMD relies, provides that a court hearing a suit "brought . . . upon any issue referable to arbitration" under a written agreement shall, upon request, stay that claim until the arbitration "has been had in accordance with the agreement."[22] The district court did not invoke Section 3, and properly so. Intel's copyright claim is not subject to any arbitration agreement, nor has AMD ever sought arbitration of the copyright issues in this case.[23] AMD asserts a defense based upon the purported award of a license, but the legality of an arbitration award is a matter for judicial, not arbitral, resolution. Intel's claim and AMD's defense thus

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[22] Section 103 reads:

> If any suit or proceeding be brought in any of the courts of the United States *upon any issue referable to arbitration* under an agreement in writing for such arbitration, the court in which such suit is pending, upon being satisfied that the issue involved in such suit or proceeding is referable to arbitration under such an agreement, shall on application of one of the parties stay the trial of the action *until such arbitration has been had in accordance with the terms of the agreement,* providing the applicant for the stay is not in default in proceeding with such arbitration.

9 U.S.C. § 3 (emphasis added).

[23] *See* AMD C.A. Br. 20 (the "arbitration did not involve Intel's claim of copyright infringement").

present non-arbitrable issues within the exclusive jurisdiction of the district court.[24]

Nor do the "core policies" behind the Arbitration Act suggest that the court of appeals erred. The Ninth Circuit has merely required the district court to exercise its exclusive jurisdiction in a case that predated the arbitration award. [*See* Pet. App. 10a-11a]. Intel has never asked the federal courts to modify or set aside that award. Intel has only contested the affirmative defense of licensure injected into this case by *AMD*.[25]

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[24] Moreover, even if the threshold test of Section 3 had been satisfied, as the Ninth Circuit held [Pet. App. 10a], the contractual arbitration "ha[d] been had in accordance with the agreement." The arbitration itself ended once the arbitrator issued his final award; the subsequent proceedings to review that award are legally distinct, just as a trial and appeal are distinct. The fundamental purpose of Section 3 is to give the arbitrator the opportunity to rule first, and that purpose had been served.

AMD suggests that when an arbitration "has been had" depends on the vagaries of state law regarding collateral effects on other proceedings. AMD fails to explain why the Arbitration Act establishes a uniform federal standard in all respects but this. In any event, this novel issue plainly does not merit this Court's review. Even AMD alleges no circuit split, and, as the paucity of decisions indicates, the issue will rarely be of practical import.

[25] Although AMD suggests that Intel has used this case as a vehicle to derail the arbitration award, the opposite is true. No arbitration award existed when Intel filed suit. Rather, the arbitrator attempted to decide *this* case in AMD's favor, expressly without regard to its merits, and notwithstanding that AMD's contractual claim to the 80386 had been found meritless.

Nor has Intel "forum shopped." Intel brought its copyright suit in federal court because federal courts have exclusive jurisdiction over such claims. Later, *AMD* chose the state court forum by seeking confirmation of the award in that court. Intel merely filed a cross-petition to correct the award in the same court.

IV. PRINCIPLES OF FINALITY AND COMITY DID NOT JUSTIFY THE STAY

AMD also argues [Pet. 25-30] that principles of finality and comity justified the stay. AMD asserts no circuit conflict in this regard, and its argument rests on two mistaken assumptions.

First, AMD assumes that general notions of comity and finality can avoid the "virtually unflagging obligation of the federal courts to exercise the jurisdiction given them." *Colorado River,* 424 U.S. at 817. They cannot. "Generally, as between state and federal courts, the rule is that 'the pendency of an action in the state court is no bar to proceedings concerning the same matter in the Federal court having jurisdiction.'" *Id.* (citation omitted). While the *Colorado River* doctrine carves out an extremely narrow exception to that rule, the exception is based on principles of "wise judicial administration" that are "*unrelated* to . . . regard for federal-state relations." *Id.* (emphasis added). For the reasons discussed in Section II above, AMD cannot satisfy the stringent requirements for a *Colorado River* stay. Its reliance on "comity" and "finality" is simply an effort to evade them.

Second, AMD's invocation of "comity" and "finality" erroneously assumes that the California state court proceedings are entitled to preclusive effect in this action. From that mistaken assumption, AMD argues [Pet. 27] that the Ninth Circuit's decision casts doubt on "the ability of a federal court to stay its proceedings pending the appeal and final resolution of an earlier judgment having preclusive effect." AMD ignores that the California proceedings are not final or entitled to preclusive effect under state law and therefore cannot have preclusive effect in this action. Whether the state court proceedings, on becoming final, ever will have preclusive effect is a record-bound question of state law of no interest to this Court. *See* Section V.

Equally without merit is AMD's suggestion [Pet. 28-30] that a stay is necessary to ensure compliance with the *Rooker-Feld-*

man doctrine.[26] Intel did not bring this action to review any state court proceedings. This action was brought *before* those proceedings commenced, indeed before the arbitrator made his award. After the Superior Court rendered its judgment, Intel was content to appeal to the California Court of Appeal, and did so successfully.[27]

V. TO REVERSE THE DECISION BELOW, THIS COURT WOULD HAVE TO RESOLVE A COLLATERAL ESTOPPEL QUESTION THAT TURNS ON STATE LAW AND IS OF NO CONCERN TO OTHER LITIGANTS

The purpose of the district court's stay was to give collateral estoppel effect to the California courts' final ruling on the legality of the arbitrator's award of a license. Indeed, the stay would have been pointless and improper unless collateral estoppel applied. *See Will v. Calvert Fire Ins. Co.*, 437 U.S. 655, 676 (1978) (Brennan, J., dissenting) (if the state court ruling were not entitled to collateral estoppel effect, "there would be no reason for staying the federal action since nothing that tran-

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[26] The district court expressly declined to predicate the stay on the *Rooker-Feldman* doctrine because AMD did not raise or brief the issue. [Pet. App. 23a]

[27] AMD also recites this Court's statement in *Landis v. North American Co.*, 299 U.S. 248, 254 (1936), that "the power to stay proceedings is incidental to the power inherent in every court to control the disposition of the causes on its docket with economy of time and effort for itself, for counsel, and for litigants." *Landis*, however, involved the stay of one federal suit to await the disposition of a similar suit pending in another federal court. In *Colorado River*, this Court cited *Landis* in observing the "difference in general approach between state-federal concurrent jurisdiction and wholly federal concurrent jurisdiction." 424 U.S. at 817. This case is yet another step removed from *Landis*, for it involves the stay of an exclusively federal action pending the outcome of non-parallel state proceedings.

spires in the state proceedings would affect the adjudication of the federal claims"). Although the court of appeals reversed the stay without deciding whether collateral estoppel would have been proper, this Court would have to reach that issue to reinstate the stay as requested by AMD.

On the merits of that question, Intel submits that collateral estoppel would not apply.[28] At a minimum, the Ninth Circuit was correct to find substantial doubt that the state proceedings will be preclusive, which rendered the stay inappropriate under the "complete and prompt determination" rule of *Moses Cone* and *Gulfstream Aerospace*. More importantly for present purposes, however, resolution of the collateral estoppel question is essential for reversal yet inappropriate for this Court's review

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[28] Apart from the arbitrator's lack of jurisdiction to adjudicate extracontractual copyright matters, the award of the purported license was neither "actually litigated" before the arbitrator nor "necessarily decided" during the arbitration, as required for collateral estoppel. *See, e.g., Lucido v. Superior Court,* 51 Cal. 3d 335, 341, 795 P.2d 1223, 1225, 272 Cal. Rptr. 767, 769 (1990) (listing the elements of collateral estoppel), *cert. denied,* 500 U.S. 920 (1991).

Under California law, an issue is "actually litigated" only when raised by the pleadings and resolved on the facts. *Betyar v. Pierce,* 205 Cal. App. 3d 1250, 1254, 252 Cal. Rptr. 907, 909 (1988). The issue that *was* litigated in the arbitration was whether AMD had a contractual right to the 80386, and that issue was resolved in Intel's favor. AMD's right to copy the 80386 microcode after the contract was concluded was neither pleaded nor briefed nor resolved as a matter of fact. The arbitrator raised the issue himself and awarded a license by fiat.

Similarly, the arbitrator's award of a "license" was not necessary to his judgment because he was asked only to decide AMD's contractual right to the 80386. *See Johnson v. St. Frances Xavier Cabrini Hosp.,* 910 F.2d 594, 595-96 (9th Cir. 1990) (no preclusive effect to arbitrator's dictum that benefit reduction complied with pension plan, when only issue before him was whether the reduction complied with collective bargaining agreement).

on certiorari. Under the "full faith and credit" principle, California law governs, and to determine the propriety of collateral estoppel this Court would have to delve into the record to determine a question of no interest beyond this case.

VI. THE ISSUES LIKELY WILL BECOME MOOT BEFORE THIS COURT COULD DECIDE THEM

The issues presented in AMD's petition essentially concern the order in which the federal and state courts address the arbitrator's power to award AMD a license to copy. Accordingly, they will become moot when the California Supreme Court confirms or sets aside the arbitration award, thus concluding the state court proceeding. Because briefing is complete in the California Supreme Court, it likely will render its decision before this Court could grant plenary consideration.

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted,

C. RANDALL BAIN,
Counsel of Record
MICHAEL F. BAILEY
JOEL W. NOMKIN
DAN L. BAGATELL
BROWN & BAIN, P.A.
2901 North Central Avenue
Post Office Box 400
Phoenix, Arizona 85001
(602) 351-8000

F. THOMAS DUNLAP, JR.
INTEL CORPORATION
2200 Mission College Boulevard
Post Office Box 58119
Santa Clara, California 95052
(408) 765-8080

JAMES J. ELACQUA
ARNOLD, WHITE & DURKEE
750 Bering Drive
Post Office Box 4433
Houston, Texas 77210
(713) 787-1400

Date: May 20, 1994

APPENDIX

17 U.S.C. § 106 provides:

> **§ 106. Exclusive rights in copyrighted works**
>
> Subject to sections 107 through 120, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:
>
> (1) to reproduce the copyrighted work in copies or phonorecords;
>
> (2) to prepare derivative works based upon the copyrighted work;
>
> (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
>
> (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly; and
>
> (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly.

(3)

No. 93-1645

Supreme Court, U.S.
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IN THE

Supreme Court of the United States

OCTOBER TERM, 1993

ADVANCED MICRO DEVICES, INC.,

Petitioner,

v.

INTEL CORPORATION,

Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

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REPLY BRIEF IN SUPPORT OF PETITION

CARL R. SCHENKER, JR.
Counsel of Record
THOMAS M. MCCOY
DALE M. CENDALI
O'MELVENY & MYERS
555 13th Street, N.W.
Suite 500 West
Washington, D.C. 20004
(202) 383-5300

ROBERT B. MORRILL
JUSTIN T. BECK
SKJERVEN, MORRILL, MACPHERSON, FRANKLIN & FRIEL
25 Metro Drive, Suite 700
San Jose, California 95110
(408) 283-1222

Attorneys for Petitioner

PRESS OF BYRON S. ADAMS, WASHINGTON, D.C. 1-800-347-8208

REPLY BRIEF IN SUPPORT OF PETITION FOR A WRIT OF CERTIORARI

Petitioner Advanced Micro Devices, Inc. ("AMD") hereby replies briefly to the opposition ("Intel Opp.") filed by respondent Intel Corporation ("Intel").

Mootness. Intel asserts that a decision by the Supreme Court of California may moot the issues here "before this Court could grant plenary consideration." (Intel Opp. 8, 29.) But that possibility hardly supports this Court's denial of the petition. Should the Supreme Court of California render its decision after a grant of certiorari but before a merits decision by this Court, the case could simply be removed from this Court's docket.[1]

Collateral Estoppel. Intel asserts that, before reinstating the stay, this Court would be required to determine record-bound questions concerning collateral estoppel that were not decided by the Ninth Circuit. (*See* Intel Opp. 8-9, 27-28.) This, however, is a false issue. First, Intel's assertion has no relevance whatever to the jurisdictional question. Second, Intel's assertion wrongly presupposes that Intel's challenges to the underlying arbitration award should be addressed

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[1] The more pertinent risk is that, in contravention of sound judicial administration, the Federal Arbitration Act, and fundamental principles of comity, the federal District Court may complete the inappropriate duplicative arbitration review ordered by the Ninth Circuit before the Supreme Court of California acts. To eliminate that possibility, this Court should consider reinstating the District Court's stay by summarily reversing the Ninth Circuit under Rule 16.1 or by granting AMD's earlier application to stay the mandate of the Ninth Circuit. (*See* AMD's Application to Recall and Stay Mandate Pending Petition for Certiorari, No. A-371, October 1993 Term (filed March 7, 1994).)

and resolved by the federal courts, rather than by the California courts where Intel first raised them. But Intel already has challenged the arbitration award in California's courts, raising (among other things) the supposed defects in the award which Intel asserts this Court should consider before reversing. (*See* Intel Opp. 28 n.28; AMD App. 25a, 38a; *see also* the parties' briefs before the Supreme Court of California (which have been lodged with the Clerk of this Court).) If the Supreme Court of California rejects those arguments and upholds the arbitration award as rendered, *that judicial determination of arbitral validity* plainly will be entitled to collateral-estoppel effect. Neither this Court nor the inferior federal courts should duplicatively consider at any stage Intel's attacks on the validity of the underlying arbitration award in the manner envisioned by footnote 28 of Intel's opposition.

Jurisdiction. Intel is correct (Intel Opp. i, 5, 9, 10) that AMD initially conceded jurisdiction before the Ninth Circuit, and counsel for AMD regret their oversight in failing to so indicate in AMD's Statement of the Case.[2] As Intel tacitly concedes, however, jurisdictional defects must be considered no matter when raised. Intel's unsuccessful efforts to distinguish the conflicting jurisdictional decisions of the Seventh,

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[2] AMD did not contest jurisdiction in its Brief of Appellee (dated Jan. 19, 1993). However, before the December 28, 1993 decision below, AMD cited *Boushel v. Toro Co.*, 985 F.2d 406 (8th Cir. 1993), to the Ninth Circuit as an additional authority. (*See* AMD Letter to Ninth Circuit Clerk (dated Oct. 12, 1993).) AMD also fully briefed the jurisdictional point in its Petition for Rehearing and Suggestion for Rehearing en Banc at 2-8 (dated Jan. 11, 1994).

Eighth, and Tenth Circuits serve only to underscore the need for this Court's guidance on this frequently recurring question.

Validity of Stay. Intel asserts that it "has never asked the federal courts to modify or set aside [the arbitration] award." (Intel Opp. 25.) This is simply untrue. Advancing the very same arguments also made to the California courts in the arbitration-review proceedings, Intel specifically urged the trial court and the Ninth Circuit to declare the arbitration award "illegal[]":

> The issue was fully briefed and argued, but the district court declined to deny the stay based upon it. The illegality question depends entirely upon whether the arbitrator held that AMD was not entitled to rights to Intel's 80386 under the 1982 Contract . . ., and whether Intel authorized the arbitrator to award only remedies that he deemed to be within the scope of the contract before him . . . . That issue is properly presented here. . . . Because the illegality of the arbitrator's decision is again fully briefed and ripe for decision, and because it should have required denial of the stay in the court below, Intel asks this Court to reach that question in deciding the appeal so that the remainder of the case may be resolved without unnecessary delay.

(AMD App. 64a-65a.) Moreover, the Ninth Circuit has expressly directed the District Court to conduct an arbitration review under the Federal Arbitration Act ("FAA"), thereby duplicating the arbitration review already conducted in the California courts. (*See* AMD App. 10a-12a.) Nowhere does Intel reconcile this di-

rective to the District Court with principles of sound judicial administration, with the FAA, or with fundamental principles of comity. In view of the ever-increasing importance of arbitration as an alternative to litigation, inferior federal courts urgently need this Court's guidance on the procedures to be followed when federal litigation implicates the validity of an arbitration award already under review in state court proceedings.

Conclusion

For the reasons stated here and in the petition for a writ of certiorari, the petition should be granted.

Respectfully submitted,

CARL R. SCHENKER, JR.
Counsel of Record
THOMAS M. MCCOY
DALE M. CENDALI
O'MELVENY & MYERS
555 13th Street, N.W.
Suite 500 West
Washington, D.C. 20004
(202) 383-5300

ROBERT B. MORRILL
JUSTIN T. BECK
SKJERVEN, MORRILL, MACPHERSON, FRANKLIN & FRIEL
25 Metro Drive, Suite 700
San Jose, California 95110
(408) 283-1222

Attorneys for Petitioner

Dated: May 25, 1994